

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Grand Rapids		County Kent
Audit Date 6/30/05	Opinion Date 10/19/05	Date Accountant Report Submitted to State: 12/23/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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DEPT. OF TREASURY

DEC 29 2005

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes and comments and recommendations

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).		✓	

Certified Public Accountant (Firm Name) BDO Seidman, LLP			
Street Address 99 Monroe Ave. NW Suite 800		City Grand Rapids	State MI
Accountant Signature <i>BDO Seidman, LLP</i>		ZIP 49503	Date 12/14/05

The Rapid Central Station

Cover photo by David Raczkowski, courtesy of Interurban Transit Partnership

Pictured on the cover is the distinctive wave shaped roof and passenger transfer platform of a new intermodal transportation center at the southern edge of downtown Grand Rapids. The flowing contours of the roof symbolize both the river rapids that gave Grand Rapids its name and the *Rapid*, the operating name of the regional public transportation organization, the Interurban Transit Partnership, which commissioned the structure. The 55,000 square foot undulating canopy was created from Teflon®-coated fiberglass fabric suspended from a steel tube structure. Translucent polycarbonate glazing fills its clerestory spaces, bringing light into the interior of the platform area without the heat that glass panels would have created.

Situated between the elevated US-131 express-way and an old industrial district, this visionary structure and an adjacent building housing administrative offices and customer service function were constructed on a Brownfield site after extensive remediation. Currently a terminal for both the local *Rapid* and Greyhound intercity buses, the structure was designed to be able to accommodate future use by Amtrak or light-rail. The adjacent building was the first U.S. transportation facility to receive LEED® certification. Designed by local architectural firm ProgressiveAE, and built by the Christman Company, the two structures received a 2005 AIA Michigan Design Honor Award.

Additional information about this project can be found at the following web sites:

www.ProgressiveAE.com

www.aiami.com

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Additional information about this project can be found at the following web sites:

www.ProgressiveAE.com

www.aiami.com

CITY OF GRAND RAPIDS, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2005

Prepared by:

**Comptroller's Office
Stan A. Milanowski
Comptroller**

Elected Officials

Mayor

George Heartwell

Commissioners

Robert Dean
James Jendrasiak
Lynn Rabaut
Roy Schmidt
Rick Tormala
James White

Comptroller

Stan A. Milanowski

Appointed Officials

City Manager

Kurt F. Kimball

City Attorney

Philip A. Balkema

City Treasurer

Albert C. Mooney

City Clerk

Mary T. Hegarty

City of Grand Rapids, Michigan
Table of Contents

	<u>Pages</u>
INTRODUCTORY SECTION:	
Certificate of Achievement for Excellence in Financial Reporting	i
City of Grand Rapids Organizational Chart	ii
Letter of Transmittal	iii
FINANCIAL SECTION:	
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of the Fund Balance of Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Funds	24

City of Grand Rapids, Michigan
Table of Contents

	<u>Pages</u>
Fund Financial Statements, continued:	
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	25
Combining Statement of Net Assets – Component Units	26
Combining Statement of Activities – Component Units	27
Notes to the Financial Statements	28
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund	66
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Public Library	67
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Museum	68
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Refuse	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Streets	70
 Combining and Individual Fund Statements and Schedules:	
Budgetary Comparison Schedule – Expenditures General Operating Fund	71
Combining Balance Sheet – Nonmajor Governmental Funds	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances —Nonmajor Governmental Funds	78
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual —Nonmajor Governmental Funds	80
Combining Statement of Net Assets – Nonmajor Enterprise Funds	81
Combining Statement of Revenues, Expenses and Changes in Net Assets —Nonmajor Enterprise Funds	82

City of Grand Rapids, Michigan
Table of Contents

Combining and Individual Fund Statements and Schedules, continued:

Pages

Combining Statement of Cash Flows – Nonmajor Enterprise Funds	83
Combining Statement of Net Assets – Internal Service Funds	84
Combining Statement of Revenues, Expenses and Changes in Net Assets —Internal Service Funds	85
Combining Statement of Cash Flows – Internal Service Funds	86
Combining Statement of Fiduciary Net Assets – Pension Trust Funds	88
Combining Statement of Changes in Net Assets – Pension Trust Funds	89
Statement of Changes in Assets and Liabilities – Agency Tax Fund	90
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source	91
Schedule by Function and Activity	92
Schedule of Changes by Function and Activity	93

City of Grand Rapids, Michigan
Table of Contents

STATISTICAL SECTION (Unaudited):

TABLE

Contents of the Statistical Section

Net Assets by Component – Last Four Fiscal Years	1
Changes in Net Assets – Last Four Fiscal Years	2
Fund Balances – Governmental Funds – Last Four Fiscal Years	3
Changes in Fund Balances – Governmental Funds – Last Four Fiscal Years	4
Tax Revenue by Source – All Funds – Last Ten Fiscal Years	5
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	6
Property Tax Levies and Collections – Last Ten Fiscal Years	7
Property Tax Rates and Tax Levies – Direct and Overlapping Governments – Last Ten Fiscal Years	8
Principal Taxpayers – Current Year and Nine Years Previous	9
Segmented Data on Income Tax Filers, Rates and Liability – Most Recent Calendar Year and Four Years Previous	10
Computation of Direct and Overlapping Debt	11
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	12
Legal Debt Margin Information – Last Ten Fiscal Years	13
Pledged Revenue Coverage – Last Ten Fiscal Years	14
Demographic Statistics – Last Ten Fiscal Years	15
Principal Local Employers – Current Year and Nine Years Previous	16
Full-time Equivalent City Government Employees by Department – Last Ten Fiscal Years	17
Operating Indicators by Function/Program – Last Ten Fiscal Years	18
Capital Asset Statistics by Function/Program – Last Ten Fiscal Years	19

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Grand Rapids,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

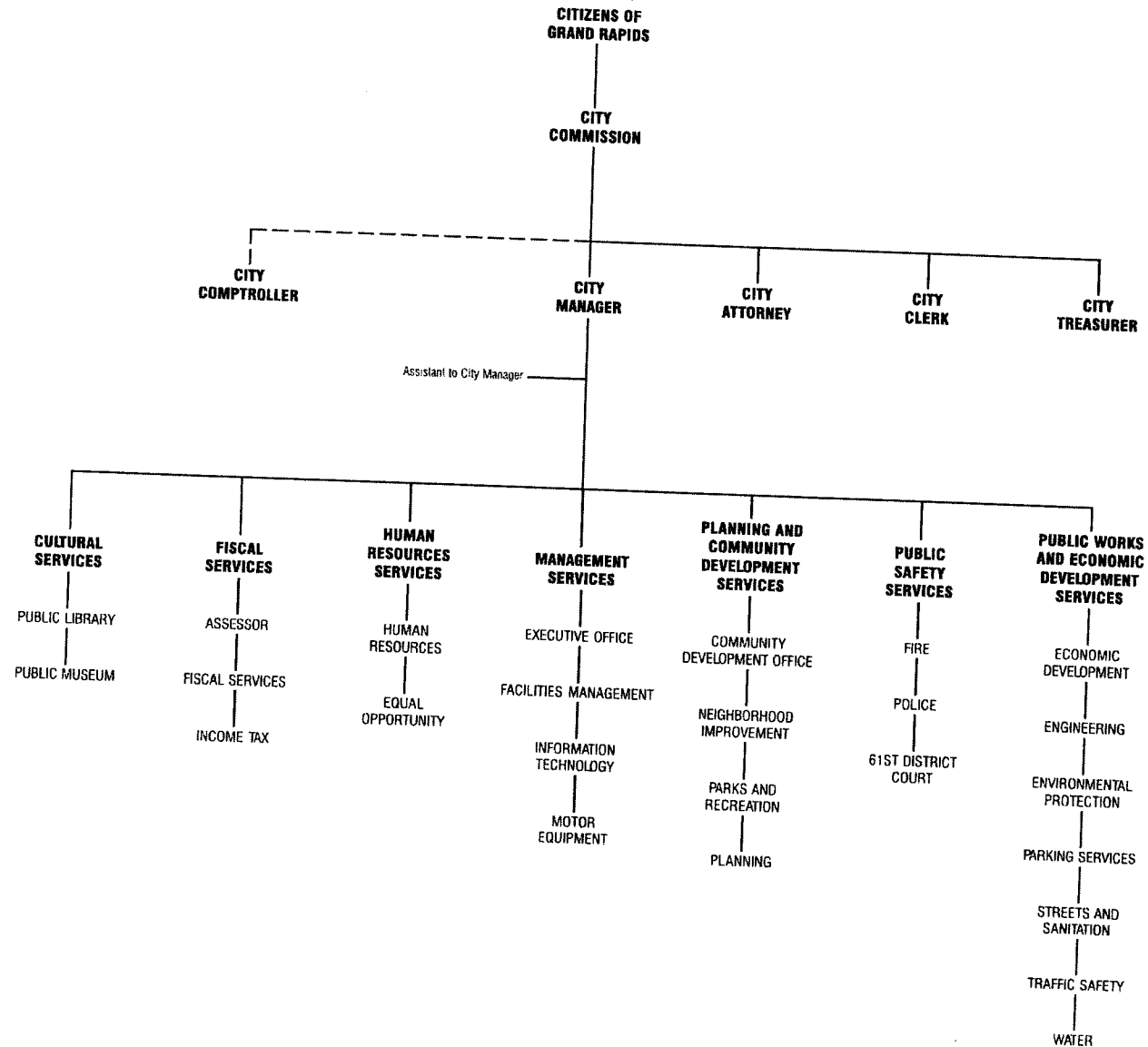
President

Jeffrey R. Emer

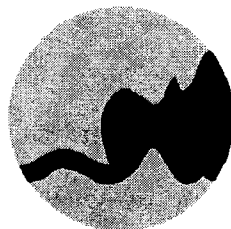
Executive Director



CITY OF GRAND RAPIDS ORGANIZATIONAL CHART



City
Comptroller
Stanley A. Milanowski



CITY OF GRAND RAPIDS

December 01, 2005

Honorable Mayor, City Commissioners and Citizens
City of Grand Rapids, Michigan

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in conformity with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Grand Rapids, Michigan for the fiscal year ended June 30, 2005.

The City Comptroller's Office assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

BDO Seidman, LLP, independent accountants, have issued an unqualified "clean" opinion on the City of Grand Rapids' financial statements for the year ending June 30, 2005. The independent auditors' report is located at the front of the financial section of this report. Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and it should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Grand Rapids is the second largest city in the State of Michigan and 100th largest in the United States. The City of Grand Rapids encompasses an area of nearly 45 square miles with a population of approximately 200,000 per the most recent census estimate. It is located in west central Michigan, approximately 30 miles east of Lake Michigan and 65 miles west of Lansing, the State Capitol. Approximately one-half of the City's general governmental revenues are derived from real and personal property taxes and the City income tax. The City income tax is imposed at a rate of 1.3 percent on income of City residents and 0.65 percent on income earned within the City limits by non-residents.

The City was incorporated on April 2, 1850. On August 29, 1916, the people of Grand Rapids voted to adopt a Home Rule Charter that abolished their old alderman system and replaced it with a Commission-Manager form of government. The 1916 charter is still in effect, although it has been amended several times. All elected City offices are non-partisan. Two commissioners are elected from each of the City's three wards. The Mayor is elected-at-large. The Comptroller is elected-at-large and his office is responsible for monitoring the financial activities of the City.

Commission and all City departments. Terms of office are four years, with three commissioners and the mayor or Comptroller elected every two years. The City Manager is appointed by the City Commission to serve as the City's chief administrator, and is responsible for the coordination of all City departments and execution of City Commission policies and programs. The seven member Library Board is also elected at-large and is responsible for the operations of the library system.

The City of Grand Rapids provides its citizens with a full range of services including police, fire, inspection, economic development, street lighting, street maintenance, refuse collection and recreation. In addition, the City operates a water and sewer system that provides retail service to some 75,000 customers in the City of Grand Rapids and suburban communities as well as wholesale service to other communities that operate their own municipal water and sewer systems. The City's Traffic Safety Department is responsible for the maintenance of traffic signals throughout Kent and eastern Ottawa Counties. The City's Public Museum, the oldest in Michigan, continues to bring the past alive for west Michigan.

The financial reporting entity includes all of the funds of City, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The following component units are incorporated into the City's Comprehensive Annual Financial Report on either a blended or discrete basis:

Grand Rapids Building Authority (GRBA)
City of Grand Rapids General Retirement System
City of Grand Rapids Police and Fire Retirement System
Grand Rapids Downtown Development Authority (DDA)

Grand Rapids Tax Increment Financing Authority (TIFA)
Grand Rapids SmartZone Development Authority (SmartZone Authority)
Grand Rapids Brownfield Redevelopment Authority (Brownfield Authority)
State of Michigan 61st District Court (61st District Court)

Blended component units, although legally separate entities, are part of the primary government's operations and are included as part of the primary government. Accordingly, the activities of the GRBA have been blended within the primary government's activities included in the Auto Parking System and various capital projects and debt service funds of the City of Grand Rapids. The City of Grand Rapids General and Police and Fire Retirement Systems have been reported as pension trust funds within the fiduciary funds.

Discretely presented component units are segregated from the primary government in the government wide financial statements. This emphasizes that they are legally separate from the primary government. The DDA, the TIFA, the SmartZone, the Brownfield Authority, and the 61st District Court are reported as discretely presented component units. The City of Grand Rapids and County of Kent Joint Building Authority (JBA), the Convention Arena Authority (C/AA), and the Grand Valley Regional Biosolids Authority are also legally separate entities. These three joint ventures, two with Kent County and one with the City of Wyoming, are excluded from these financial statements.

The annual budget serves as the foundation for the City of Grand Rapids' financial planning and control. The City Commission is required to adopt a final budget by the second Monday in May of each year. The budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Department heads may transfer resources within the activities they manage. Transfers between departments and above administrative amounts set by the City Commission need special approval from the governing body. The City continues to meet its responsibility for sound financial management.

LOCAL ECONOMY

The City of Grand Rapids is advantaged by a highly diversified local economy. As shown in the Statistical Tables, the ten largest taxpayers in the City of Grand Rapids collectively account for less than ten percent of the total taxable property within the city. The Grand Rapids Metropolitan Statistical Area (defined as Kent, Ottawa, Muskegon, and Allegan counties) has the nation's highest percentage (23%) of manufacturing employment in labor markets of 500,000 or more workers. In spite of our diversified economy, the importance of manufacturing to the local and state economies has resulted in the region hurting more than the nation as a whole from the lackluster economic recovery. When the overall economy exhibits stronger growth, Michigan, and metro Grand Rapids in particular, should outpace the national economy. People want to live in Grand Rapids! Partners for Livable Communities named Grand Rapids one of the best places in America to be in 2004.

The DeVos Place, a \$220 million convention center on the downtown riverfront, which opened in November 2003, has brought new hotel development to accommodate conventioners by local and national developers. The Frederik Meijer Gardens and Sculpture Park continues the expansion of its internationally known sculpture collection and extensive horticultural displays. The Grand Rapids Art Museum broke ground in September 2004 for a new 125,000 square foot home in the heart of the downtown district. These facilities, added to the Grand Rapids Public Museum, the Gerald R. Ford Presidential Museum, and a thriving entertainment district, make downtown Grand Rapids an attractive spot for conventions, regional and national events, and local citizens alike.

The City of Grand Rapids continues to expand as a regional health care center. Major investments have been completed at the local hospitals with more on the drawing board; Spectrum Health completed the \$86 million Fred and Lena Meijer Heart Center, along with the \$42 million Richard J Lacks Sr. Cancer Center at St. Mary's Mercy Medical Center. Hi-tech facilities like these and their highly trained medical staffs draw patients from the entire region for the finest in medical care. These facilities also attract medical students from across the country to specialized residency programs at local hospitals, placing Grand Rapids at or near the top of medical education programs in cities without a medical college. Talks are currently under way to remedy this shortcoming by relocating the Michigan State University Medical College from East Lansing to Grand Rapids. In addition, all of the eleven colleges and universities with campuses in Grand Rapids have either just completed, or currently have major facility construction underway.

In the past year, several major projects have broken ground signaling a recovery to the Grand Rapids economy.

- The largest private investment in the city is a multi-tower medical complex in downtown at a cost of \$150,000,000. In the same area, Spectrum Hospital is building a new cancer center and the VanAndel Institute, a world renowned molecular cancer research facility, will triple its size with a new addition. These two projects represent an additional \$200,000,000 investment. Together these projects will create 2050 new jobs and another 2500 spin off jobs which will generate an estimated \$1.8 million in income tax receipts for the city. These are high paying life science jobs which will help us diversify and replace our lost manufacturing base.
- Construction is underway on a new \$100,000,000 major hotel in downtown. The facility will help support the recently opened \$220,000,000 convention center.
- A number of mixed use projects are also underway downtown which will bring new retail, office and residential space. The downtown condominium market is extremely strong with a thousand new units being planned. Prices start at \$200,000 and go upwards as high as \$1,000,000,000. Empty nesters moving back to the city from the suburbs seem to be the predominant market for these new residences.
- Several new manufactures have moved into the city this past year. Most notable is Grand Rapids Door and Sash. Attracted by a tax free renaissance zone in the City's urban core, this company will consolidate several suburban locations and create 130 jobs.

All of this activity has spawned a renewed vitality for Grand Rapids and created a downtown, urban living district as well. Turn of the century commercial and industrial structures near the center city are being rehabilitated into residential condos and apartments. Appealing to younger professionals and established urbanites as well, these downtown residences add color and sustainability to the City's small urban environment.

LONG-TERM FINANCIAL PLANNING

The budget process for the first time in the City's history looked beyond FY2006 to FY2010 by preparing the first-ever multi-year budget. This multi-year budget is a result of using a new set of Budget Development Policy Assumptions and Principles that were adopted by City Commission in March of this year. The policy deals with four areas; approve the Annual Budget within the context of a five-year plan, on-going expenditures are matched to on-going revenues, one-time revenues are matched to one-time expenditures, withdrawals from budget stabilization are treated as one-time revenues.

MAJOR INITIATIVES

City staff is completing the final phase of a major project that provides substance to the City slogan, "Building a Better Grand Rapids ... By Design." The third Master Plan for the City of Grand Rapids was the culmination of planning and community involvement. The revision of the 1960's-era zoning ordinances to accommodate the Master Plan's vision of mixed use development will be the final piece in the framework that will guide the City's continued revitalization and growth as an excellent place to live, work, and raise a family.

The City Commission continues to focus on the needs of the citizens of Grand Rapids and is committed to the vitality and development of the City's historical areas. The Economic Development Office uses a broad array of tax abatements, state and federal grants, and advocacy to redevelop older properties and to help businesses expand. All available tools for drawing economic development, jobs and quality residential resources into the City are in use. In cooperation with State authorities, the City has created multiple "SmartZones" to attract high-tech businesses and to support start-up enterprises, Brownfield Redevelopment Zones to remediate and rehabilitate contaminated sites and obsolete facilities, and other programs to bolster the City vitality.

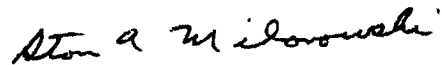
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Grand Rapids for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The City has received this award for over twenty years. In order to be awarded a Certificate of Achievement, a governmental unit must publish a user-friendly and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

In addition, the City has also received the GFOA's award for Distinguished Budget Presentation for the seventeenth consecutive year for its budget document for the fiscal year beginning July 1, 2004. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operating guide, as a financial plan and as a communications medium.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Comptroller's Office. I express my appreciation to all members of the Comptroller's Office who assisted and contributed to its preparation. I would also like to thank the members of the City Commission and the City Manager and his staff for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Stan A. Milanowski
City Comptroller



BDO Seidman, LLP
Accountants and Consultants

99 Monroe Avenue N.W., Suite 800
Grand Rapids, Michigan 49503-2698
Telephone: (616) 774-7000
Fax: (616) 776-3680

Independent Auditors' Report

The Honorable Members of
the City Commission
City of Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Grand Rapids, Michigan (the City) as of and for the year ended June 30, 2005 (December 31, 2004 for the Police and Fire Pension System), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information at June 30, 2005 (December 31, 2004 for the Police and Fire Pension System), and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2005, on our consideration of the City of Grand Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the budgetary comparison schedules on pages 66-70 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Grand Rapids. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BDO Seidman, LLP

Grand Rapids, Michigan
October 19, 2005

City of Grand Rapids, Michigan Management's Discussion and Analysis

As the management of the City of Grand Rapids (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the information that we have furnished in our letter of transmittal, in the introductory section of this report.

Financial Highlights

- The Net Assets of the City is the amount by which the City's assets exceeded its liabilities. At June 30, 2005, net assets totalled \$533,794,384. The unrestricted portion of this amount, \$138,585,329, may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$2,545,505. This decrease resulted from a reduction in net assets of governmental activities of \$13,207,104 partially offset by an increase of \$10,661,599 business activities net assets
- At June 30, 2005, the City's governmental funds reported combined fund balances of \$52,916,139. This is a decrease of \$3,949,456 from the prior year. Of the total fund balance for governmental funds, \$29,871,453 is *available for spending* at the government's discretion (*unreserved fund balance*).
- The general fund balance saw an increase of \$3,568,003. At June 30, 2005, the undesignated general fund balance stands at 9.4% of 2005 general fund expenditures, compared with 5.2% in 2004.
- The City's total debt increased by \$24,459,005 during the current fiscal year. Payments reducing debt totaled \$31,439,661 including \$12,205,000 in refinanced debt, and new debt issues totaled \$55,700,000.
- A schedule of the City's long-term obligations can be found in Note 6 of the notes to financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and urban and community development. The major business-type activities of the City include the Water Supply System, Sewage Disposal System, and the Auto Parking System.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also five legally separate authorities for which the City is financially accountable. They are a Downtown Development Authority, a Tax Increment Finance Authority, a SmartZone Authority, a Brownfield Redevelopment Authority, and the 61st District Court. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government wide statements can be found on pages 13-14 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nine major and fifteen non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue and capital project funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the *combining statements* section of this report on pages 76-80.

The City adopts an annual appropriated budget for most of its governmental funds. Budgetary comparison statements have been provided in the required supplementary information section of this report for the major funds to demonstrate compliance with this budget. Budget comparison statements have also been provided for the non major funds on page 80.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds: The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System, Sewage Disposal System, Auto Parking System, Cemeteries and Belknap Ice Arena. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Department of Information Technology, Motor Equipment System, Facilities Management, Central Stores, Engineering, and the Insurance Payment Fund. The internal service funds have been allocated to both *business activities* and to *governmental activities* in the government-wide Statement of Activities.

The proprietary fund financial statements provide separate information for the major enterprise funds of the City. The non-major enterprise funds and the internal service funds are each combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and internal service funds are provided in the *combining statements* section of this report.

The basic proprietary fund financial statements can be found on pages 19-23 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its Pension trust, Private-purpose and Agency funds.

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the financial statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-65 of this report.

Other information: In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* regarding the City's budgetary comparison of the general fund and four major special revenue funds. This supplementary information is contained behind its own tab following the notes to financial statements on pages 66-70 of this report.

Also included under the tab "statistical section" are various statistical tables containing information presented to assist the reader in further evaluating the financial information and the overall position of the City.

Government-wide Financial Analysis

	City of Grand Rapids' Net Assets					
	Governmental Activities 2005	Governmental Activities 2004 (Restated-Note 11)	Business-Type Activities 2005	Business-Type Activities 2004	Total Primary Government 2005	Total Primary Government 2004 (Restated-Note 11)
Current and other assets	\$ 92,310,524	\$ 101,913,977	\$ 117,497,787	\$ 121,277,529	\$ 209,808,311	\$ 223,191,506
Capital assets, net of accumulated depreciation	205,480,643	215,307,630	565,752,695	526,705,113	771,233,338	742,012,743
Total Assets	<u>\$ 297,791,167</u>	<u>\$ 317,221,607</u>	<u>\$ 683,250,482</u>	<u>\$ 647,982,642</u>	<u>\$ 981,041,649</u>	<u>\$ 965,204,249</u>
Current liabilities	\$ 22,066,944	\$ 25,366,367	\$ 26,480,686	\$ 27,811,552	\$ 48,547,630	\$ 53,177,919
Non-current liabilities	133,345,435	136,269,348	265,354,201	239,417,093	398,699,636	375,686,441
Total Liabilities	<u>\$ 155,412,379</u>	<u>\$ 161,635,715</u>	<u>\$ 291,834,887</u>	<u>\$ 267,228,645</u>	<u>\$ 447,247,266</u>	<u>\$ 428,864,360</u>
Net assets						
Invested in capital assets, net of related debt	\$ 87,476,858	\$ 94,804,365	\$ 270,812,583	\$ 279,644,764	\$ 358,289,441	\$ 374,449,129
Restricted	5,767,246	14,354,672	31,152,368	7,612,496	36,919,614	21,967,168
Unrestricted	49,134,684	46,426,855	89,450,645	93,496,737	138,585,329	139,923,592
Total Net Assets	<u>\$ 142,378,788</u>	<u>\$ 155,585,892</u>	<u>\$ 391,415,596</u>	<u>\$ 380,753,997</u>	<u>\$ 533,794,384</u>	<u>\$ 536,339,889</u>

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$533,794,384 at June 30, 2005 and \$536,339,889 at June 30, 2004. The decrease primarily reflects strong revenues in business-type activities but a decline in governmental net assets from lower tax revenues and level to higher expenses in the governmental activities.

The City's current and other assets decreased by \$13,383,195 or 6.0%. The decrease was due primarily to the normal expenditures of current assets on construction projects.

The total liabilities increased 4.3% or \$18,382,906. Current liabilities decreased primarily due to lower spending levels from tighter budgetary controls and reduced activity in construction. Long-term liabilities increased due to the new debt issued.

By far, the largest portion of the City's net assets (67.1%) is its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. The City's restricted net assets are primarily restricted for debt service and authorized capital projects. The remaining balance of *unrestricted net assets* (\$138,585,329) may be used to meet government's ongoing obligations to citizens and creditors.

At June 30, 2005, the City is able to report positive balances in all three categories of net assets.

Capital Asset and Debt Administration

City of Grand Rapids' Capital Assets (net of depreciation)						
	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total 2005	Total 2004
Land	\$ 16,118,115	\$ 16,363,741	\$ 10,253,863	\$ 10,253,651	\$ 26,371,978	\$ 26,617,392
Land improvements	18,077,864	18,802,358	6,170,789	6,939,209	24,248,653	25,741,567
Buildings and structures	124,718,414	128,018,992	96,274,116	99,388,048	220,992,530	227,407,040
Leasehold improvements	14,067	39,543	-	-	14,067	39,543
Storage tanks	-	-	7,653,064	6,830,383	7,653,064	6,830,383
Machinery and equipment	11,587,758	12,366,399	55,600,703	47,212,249	67,188,461	59,578,648
Motor vehicles	15,419,635	16,832,046	337,913	421,519	15,757,548	17,253,565
Furniture	2,163,818	2,549,859	424,834	382,822	2,588,652	2,932,681
Water and sewer mains	-	-	348,206,868	339,488,727	348,206,868	339,488,727
Infrastructure	9,745,026	7,675,115	-	-	9,745,026	7,675,115
Construction in progress	7,635,946	12,659,577	40,830,545	15,788,505	48,466,491	28,448,082
Total	<u>\$ 205,480,643</u>	<u>\$ 215,307,630</u>	<u>\$ 565,752,695</u>	<u>\$ 526,705,113</u>	<u>\$ 771,233,338</u>	<u>\$ 742,012,743</u>

Capital assets: The City's investment in capital assets for its governmental and business type activities as of June 30, 2005 amounts to \$771,233,338 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture, and some infrastructure. The increase in the City's investment in capital assets for the current fiscal year (before depreciation allowance) was over \$10 million.

Major capital asset events during the current fiscal year included the following:

- Construction continued on Phase II of the Community Archive and Research Center. Construction in progress as of the close of the fiscal year had reached \$6,503,538.
- Various additions and improvements were completed in the Water Supply System at a cost of \$11,763,533. Construction in progress on additional projects at the close of the fiscal year had reached \$4,082,763.
- Various additions and improvements were completed in the Sewage Disposal System at a cost of \$18,078,971. Construction in progress on additional projects as of June 30, 2005 had reached \$36,747.

Additional information on the City's capital assets can be found in note 5 of the notes to the financial statements.

City of Grand Rapids' Outstanding Debt
Limited Tax Bonds, Revenue Bonds and Long-term Contracts

	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total 2005	Total 2004
Limited tax pledge bonds	\$ 61,374,083	\$ 64,717,386	\$ 18,435,917	\$ 19,257,614	\$ 79,810,000	\$ 83,975,000
Revenue bonds	36,590,000	30,855,000	262,961,693	236,203,505	299,551,693	267,058,505
Long-term contracts	22,333,694	25,876,561	1,969,184	2,295,500	24,302,878	28,172,061
Total	<u>\$ 120,297,777</u>	<u>\$ 121,448,947</u>	<u>\$ 283,366,794</u>	<u>\$ 257,756,619</u>	<u>\$ 403,664,571</u>	<u>\$ 379,205,566</u>

Long-term debt: At June 30, 2005, the City had total long-term debt outstanding of \$403,664,571. Of this amount \$79,810,000 comprises limited tax full faith and credit general obligations. Limited tax full faith and credit general obligation bonds require the City to provide sufficient moneys from its general fund as a first budget obligation for principal and interest, including the collection of ad valorem taxes which the City is authorized to levy on all taxable property within its boundaries. Such tax levies however are subject to applicable statutory, constitutional, and charter tax limitations. The remainder of the City's debt represents bonds secured solely by specified revenue sources and long-term contracts. These long-term contracts are general obligations of the City.

The City's total bonded debt does not include the June 30, 2005 balance of the City of Grand Rapids and County of Kent Building Authority bonds of \$80,508,904 issued December 21, 2001. These bonds were issued to finance a substantial portion of the new DeVos Place Convention Center Facility. The County of Kent has the sole responsibility for the repayment of this debt through their Hotel/Motel tax receipts. The City is not liable for the payment of principal or interest and therefore has excluded them from the financial statements.

New debt issued in 2005 included the Sanitary Sewer System Revenue Bonds in the amount of \$37,475,000 and the Building Authority issue of \$18,225,000. The proceeds of the Sanitary Sewer System bonds are being used for the separation of combined sanitary and storm sewers including the construction of new sewers to provide the separate conveyance of storm water and sanitary sewage, a new force main, a new relief sewer, and other upgrading to increase pump capacity. The bonds are self-liquidating and not a general obligation of the City. Debt Service is funded solely from the net revenues derived from operation of the Sewer System. The Building Authority issue proceeds were used to defease a portion of the prior 2002 bond issue and to provide funds for the construction and installation of the U.S. Bankruptcy Court. See note 6 for additional information.

All normally scheduled debt payments were made during 2005.

Additional information on the City's long-term debt can be found in note 6 in the notes to the financial statements.

Changes in Net Assets:

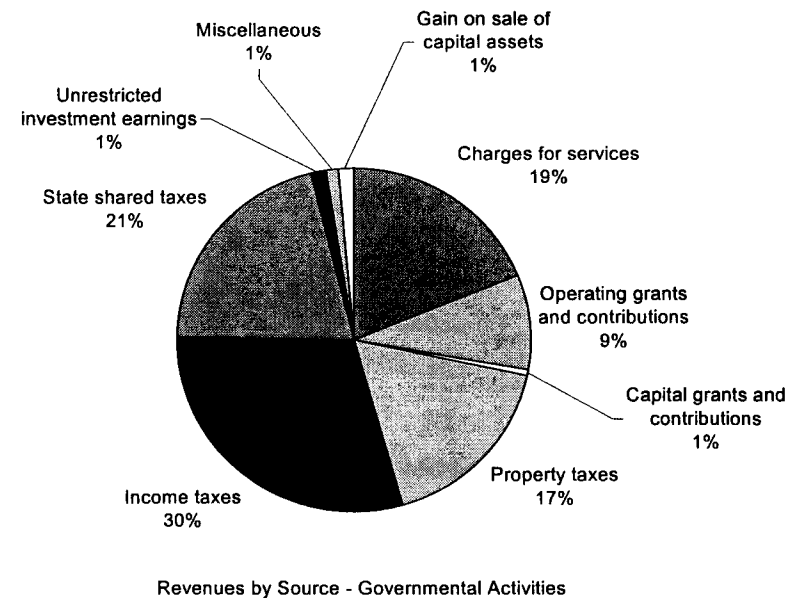
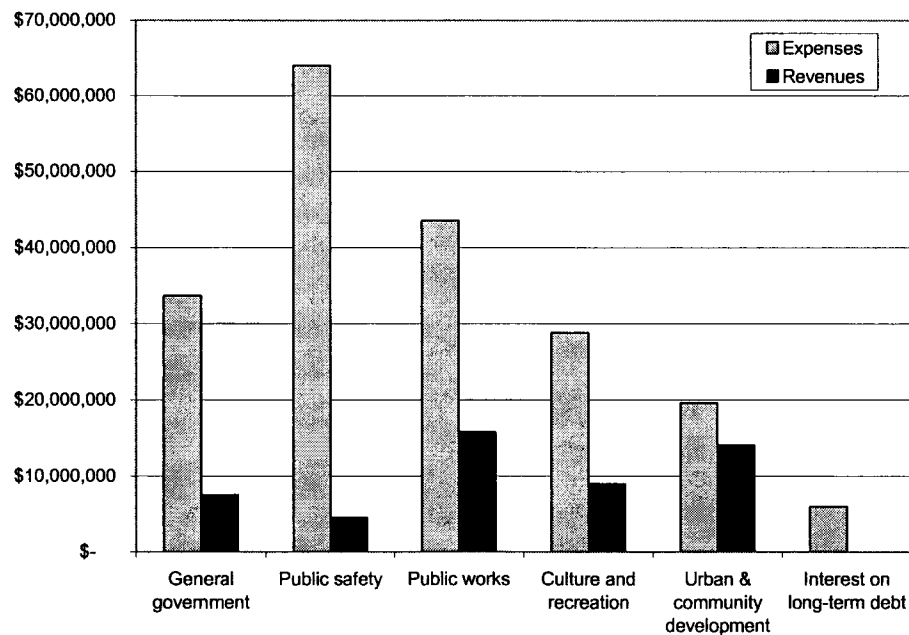
City of Grand Rapids' Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total Primary Government 2005	Total Primary Government 2004
Revenues:						
Program Revenues:						
Charges for services	\$ 33,629,418	\$ 36,510,113	\$ 82,589,876	\$ 80,830,792	\$ 116,219,294	\$ 117,340,905
Operating grants and contributions	15,906,995	15,608,878	64,832	7,513,430	15,971,827	23,122,308
Capital grants and contributions	1,330,925	1,293,722	7,269,318	7,742,882	8,600,243	9,036,604
General Revenues:						
Property taxes	30,665,405	28,716,475	-	-	30,665,405	28,716,475
Income taxes	53,110,303	50,939,823	-	-	53,110,303	50,939,823
State shared taxes	37,459,858	38,116,803	-	-	37,459,858	38,116,803
Unrestricted investment earnings	2,549,172	2,115,509	2,005,844	1,574,371	4,555,016	3,689,880
Miscellaneous	2,234,021	341,141	464,588	703,740	2,698,609	1,044,881
Gain on sale of capital assets	2,275,880	270,198	-	-	2,275,880	270,198
Total Revenues	179,161,977	173,912,662	92,394,458	98,365,215	271,556,435	272,277,877
Expenses:						
General government	33,672,302	21,333,282	-	-	33,672,302	21,333,282
Public safety	63,974,695	78,550,437	-	-	63,974,695	78,550,437
Public works	43,527,115	37,049,923	-	-	43,527,115	37,049,923
Culture and Recreation	28,834,178	28,419,253	-	-	28,834,178	28,419,253
Urban & Community Development	19,631,447	17,214,538	-	-	19,631,447	17,214,538
Interest on long-term debt	5,976,465	5,772,221	-	-	5,976,465	5,772,221
Water Supply System	-	-	37,085,727	35,906,598	37,085,727	35,906,598
Sewage Disposal System	-	-	30,404,961	32,493,825	30,404,961	32,493,825
Auto Parking System	-	-	8,626,703	8,414,363	8,626,703	8,414,363
Other Enterprises	-	-	2,368,347	1,842,923	2,368,347	6,579,617
Total Expenses	195,616,202	188,339,654	78,485,738	78,657,709	274,101,940	266,997,363
Change in Net Assets before Transfers	(16,454,225)	(14,426,992)	13,908,720	19,707,506	(2,545,505)	5,280,514
Transfers	3,247,121	1,965,577	(3,247,121)	(1,965,577)	-	-
Change in Net Assets	(13,207,104)	(12,461,415)	10,661,599	17,741,929	(2,545,505)	5,280,514
Net Assets - beginning (as restated - Note 11)	155,585,892	168,047,307	380,753,997	363,012,068	536,339,889	531,059,375
Net Assets - ending	\$ 142,378,788	\$ 155,585,892	\$ 391,415,596	\$ 380,753,997	\$ 533,794,384	\$ 536,339,889

Governmental activities: Governmental activities decreased the City's net assets by \$13,207,104. Key elements of this decrease are as follows:

- The Capital Construction Funds used portions of reserved fund balances to continue or complete projects accounting for \$5.6 million.
- The Major and Local Street funds experienced higher expenditures than revenues with a reduction in net assets of \$3.0 million.
- The Motor Equipment fund experienced higher expenditures than revenues with a reduction in net assets relating to governmental activities of \$1.6 million.
- The Insurance Fund had an intentional reduction in net assets relating to governmental activities of \$1.4 million.

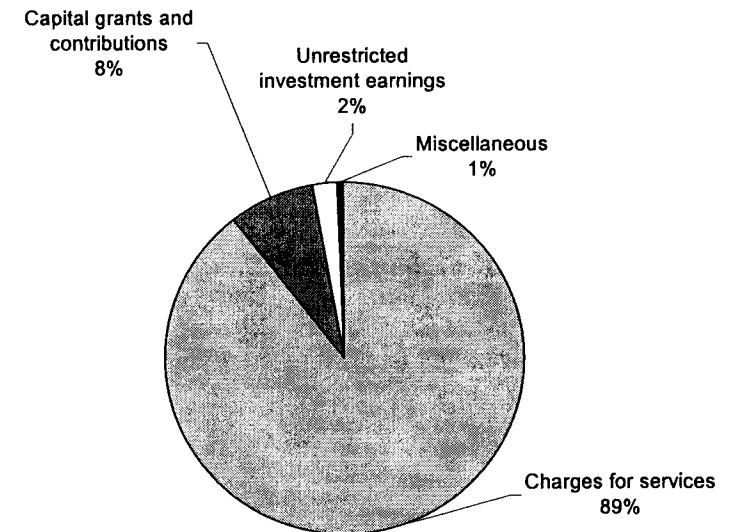
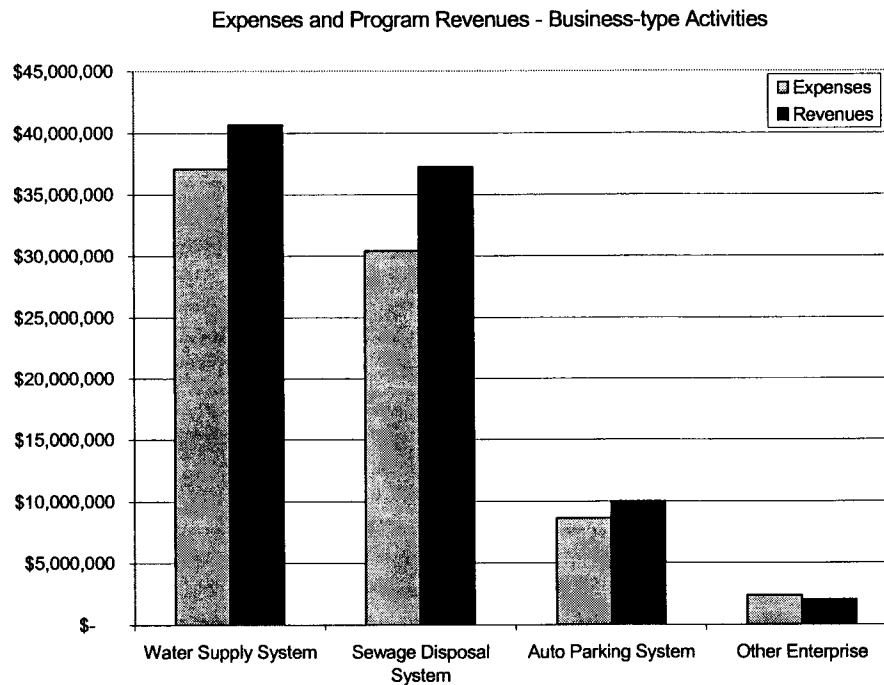
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

Business-type activities: Business-type activities increased the City's net assets by \$10,661,599. The key elements of this increase are as follows:

- The Water Supply System revenue requirements increased 4% due to a decline in billed volume.
- The Sewage Disposal System revenue requirements increased 9% due to a decline in billed volume and increases for personal service costs, supplies and contractual repairs of service mains, and are partially offset by increased connection fees.
- Parking revenues continued strong supported by the continued growth of downtown activities.



Revenues by Source - Business-type Activities

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$52,916,139. Approximately 33 % of this total amount (\$29,871,453) constitutes the *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The amount of the unreserved governmental fund balance declined approximately 6% during fiscal 2005. The primary sources of that decline were the spending down of capital projects and the decline in the general fund unreserved balance due to shortfalls in projected revenues. The general fund is the chief operating fund of the City. At June 30, 2005, undesignated fund balance of the general fund was \$9,944,527. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total fund expenditures. Undesignated fund balance represents 9.4% of total general fund expenditures, up from 5.2% in 2004.

The City has established a budget stabilization fund to account for funds accumulated as described in Public Act No. 30 of 1978. Transfers from general fund to the budget stabilization fund are based upon the excess revenue over expenses in the general fund. Taken into consideration in determining the amount to transfer is the amount required to fulfill existing end-of-year contractual obligations and for amounts designated to be set aside for financing activities for the next fiscal year. Contractual obligations are reported as a reservation of fund balance for encumbrances. Designations for the ensuing year are reported as a designated portion of the unreserved fund balance.

The budget stabilization fund is reported as a non-major special revenue fund.

Proprietary funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net assets of the Water Supply System, Sewage Disposal System, Auto Parking System and other non-major enterprise funds at the end of the year amounted to \$88,626,469. The total growth in net assets for enterprise funds was \$9,913,359. The major factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$4,497,780 increase in appropriations between the original and final amended budget. The major components of the increase were as follows:

- \$2.0 million of appropriations were moved to the general fund from special revenue funds to account for operating and debt payments related to a City building currently leased to the State of Michigan. This is funded by rent received from the State.
- \$1.3 million was added to the Parks and Recreation Department appropriation for after-school programs funded by the public schools from a federal grant the schools received for that purpose.
- \$675,000 of supplemental appropriations were added to the Fire Department budget to cover the overtime required to maintain minimum staffing levels. This increase in appropriation authority was funded from the contingent account and from upward revisions in estimated revenues.
- \$538,000 of supplemental appropriations were added to the police department budget for training and crime reduction programs funded by state and federal grants awarded during the year.

Revenues ended the year higher than anticipated because of the rent received from the State of Michigan and income tax receipts that rose steadily beginning in late April.

Economic Factors and Next Year's Budgets and Rates

The City of Grand Rapids is located in the State of Michigan. That is the primary factor impacting the budgeting process in recent years. While it is encouraging that the state unemployment rate has been falling and that the local area unemployment rate has finally dropped below the statewide average, Michigan has failed to participate to the extent that all other states have in recovering from the economic slowdown that occurred in 2001. The unemployment rate of city residents fell significantly during the year and is believed to be partly responsible for a 4.3% growth in income tax receipts, but the rate remains substantially above that of the larger metropolitan area that the city is a part of. Budgetary pressures at the state level have caused a decrease in the amount of sales tax distributed to local units. Constitutional tax limitation amendments have capped increases in property taxes to below the rate of inflation.

The City considered all of these factors in preparing the budget for fiscal year 2006. That budget was balanced without the use of a transfer from the Budget Stabilization fund. For the first time a five-year budget has been prepared for operating funds to better foresee the impact of near term decisions on the long-term financial health of the City.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Comptroller Department, 300 Monroe NW, Grand Rapids, MI 49503. Contact telephone number (616) 456-3189.

City of Grand Rapids, Michigan
Statement of Net Assets
Government Wide
June 30, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Total Primary Government	Total Component Units
ASSETS				
Equity in pooled cash and investments (Note 2)	\$ 72,858,399	\$ 64,712,236	\$ 137,570,635	\$ 15,897,401
Investments held by trustee	-	-	-	5,515,713
Receivables, net	8,894,345	15,060,670	23,955,015	4,181,672
Internal balances	(824,176)	824,177	1	-
Due from other governmental units	8,757,874	501,536	9,259,410	81,209
Due from component unit	45,000	-	45,000	-
Inventories	2,579,082	3,060,123	5,639,205	-
Deferred expenses and other assets	-	553,791	553,791	114,812
Restricted assets (Notes 2 and 4)	-	32,785,254	32,785,254	-
Capital Assets (Note 5):				
Non-depreciable	23,754,061	51,084,408	74,838,469	11,753,491
Depreciable, net	181,726,582	514,668,287	696,394,869	55,324,212
Total assets	<u>\$ 297,791,167</u>	<u>\$ 683,250,482</u>	<u>\$ 981,041,649</u>	<u>\$ 92,868,510</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 17,537,311	\$ 4,142,249	\$ 21,679,560	\$ 3,462,200
Accrued interest payable	1,496,785	5,766,283	7,263,068	225,586
Due to primary government	-	-	-	45,000
Due to other governmental units	1,663,244	-	1,663,244	148,511
Unearned revenues	1,191,307	-	1,191,307	-
Customer deposits	178,297	-	178,297	-
Current portion of claims payable	-	1,010,000	1,010,000	-
Payable from restricted assets (Note 6):				
Bonds and contracts payable	-	11,096,736	11,096,736	-
Accrued interest and other	-	4,465,417	4,465,417	-
Noncurrent liabilities (Note 6):				
Due within 1 year:	16,780,534	963,276	17,743,810	2,978,019
Due in more than 1 year:	116,564,901	264,390,925	380,955,826	59,165,792
Total liabilities	<u>155,412,379</u>	<u>291,834,887</u>	<u>447,247,266</u>	<u>66,025,108</u>
NET ASSETS				
Invested in capital assets, net of related debt	87,476,858	270,812,583	358,289,441	9,384,373
Restricted for:				
Expendable:				
Public Safety	1,736,573	-	1,736,573	-
Cultural and recreation	374,994	-	374,994	-
Debt service	-	31,152,368	31,152,368	-
Authorized projects	-	-	-	20,954,951
Urban and community development	112,088	-	112,088	-
Nonexpendable:				
Perpetual care	3,406,693	-	3,406,693	-
Cultural and recreation	136,898	-	136,898	-
Unrestricted	49,134,684	89,450,645	138,585,329	(3,495,922)
Total net assets	<u>142,378,788</u>	<u>391,415,596</u>	<u>533,794,384</u>	<u>26,843,402</u>
Total liabilities and net assets	<u>\$ 297,791,167</u>	<u>\$ 683,250,482</u>	<u>\$ 981,041,649</u>	<u>\$ 92,868,510</u>

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Activities
Government Wide
for the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating	Capital	Primary Government			Component Units
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
<i>Governmental activities:</i>								
General government	\$ 33,672,302	\$ 7,182,200	\$ 329,206	\$ -	\$ (26,160,896)	\$ -	\$ (26,160,896)	\$ -
Public safety	63,974,695	2,398,078	2,124,050	-	(59,452,567)	-	(59,452,567)	-
Public works	43,527,115	13,911,524	551,653	1,330,925	(27,733,013)	-	(27,733,013)	-
Culture and recreation	28,834,178	5,367,635	3,588,950	-	(19,877,593)	-	(19,877,593)	-
Urban & community development	19,631,447	4,769,981	9,313,136	-	(5,548,330)	-	(5,548,330)	-
Interest on long-term debt	5,976,465	-	-	-	(5,976,465)	-	(5,976,465)	-
Total governmental activities	195,616,202	33,629,418	15,906,995	1,330,925	(144,748,864)	-	(144,748,864)	-
<i>Business-type activities:</i>								
Water Supply System	37,085,727	37,449,668	-	3,215,238	-	3,579,179	3,579,179	-
Sewage Disposal System	30,404,961	33,144,157	64,832	4,017,068	-	6,821,096	6,821,096	-
Auto Parking System	8,626,703	10,007,874	-	-	-	1,381,171	1,381,171	-
Other Enterprise	2,368,347	1,988,177	-	37,012	-	(343,158)	(343,158)	-
Total business-type activities	78,485,738	82,589,876	64,832	7,269,318	-	11,438,288	11,438,288	-
Total primary government	\$ 274,101,940	\$ 116,219,294	\$ 15,971,827	\$ 8,600,243	(144,748,864)	11,438,288	(133,310,576)	-
Component Units:								
Tax Increment Financing Authority	\$ 11,271,782	\$ 234,639	\$ 248,200	\$ -	-	-	-	(10,788,943)
Downtown Development Authority	401,479	-	-	-	-	-	-	(401,479)
SmartZone Development Authority	384,602	-	57,500	-	-	-	-	(327,102)
Brownfield Redevelopment Authority	147,374	51,000	-	-	-	-	-	(96,374)
61st District Court	14,141,582	7,395,436	6,552,359	-	-	-	-	(193,787)
Total component units	\$ 26,346,819	\$ 7,681,075	\$ 6,858,059	\$ -	-	-	-	(11,807,685)
General revenues:								
Property taxes					30,665,405	-	30,665,405	9,508,431
City income taxes					53,110,303	-	53,110,303	-
State shared taxes					37,459,858	-	37,459,858	-
Unrestricted investment earnings					2,549,172	2,005,844	4,555,016	553,398
Miscellaneous					2,234,021	464,588	2,698,609	-
Gain on sale of capital assets					2,275,880	-	2,275,880	-
Transfers (Note 8)					3,247,121	(3,247,121)	-	-
Total general revenues and transfers					131,541,760	(776,689)	130,765,071	10,061,829
Change in net assets					(13,207,104)	10,661,599	(2,545,505)	(1,745,856)
Net assets - beginning, as restated (Note 11)					155,585,892	380,753,997	536,339,889	28,589,258
Net assets - ending					\$ 142,378,788	\$ 391,415,596	\$ 533,794,384	\$ 26,843,402

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Balance Sheet
Governmental Funds
June 30, 2005

	Major Governmental Funds										
ASSETS	General	Library	Museum	Refuse	Major Streets	Local Streets	Streets Capital Construction	General Capital Construction	Building Authority Construction	Nonmajor Governmental Funds	Total Governmental Funds
Equity in pooled cash & investments (Note 2)	\$ 19,315,125	\$ 2,246,527	\$ 35,209	\$ 2,262,631	\$ -	\$ -	\$ 9,263,417	\$ 4,472,839	\$ 3,991,438	\$ 10,848,782	\$ 52,435,968
Receivables, net	5,576,970	28,702	49,768	1,049,592	257,828	6,042	167,102	327,944	-	227,508	7,691,456
Due from other funds (Note 8)	1,385,046	-	-	-	-	-	-	-	-	-	1,385,046
Due from component units	45,000	-	-	-	-	-	-	-	-	-	45,000
Due from other governmental units	5,180,505	86,052	59,600	-	2,442,526	472,786	349,600	-	-	166,805	8,757,874
Inventories	-	-	253,754	-	-	-	-	-	-	20,382	274,136
Total assets	\$ 31,502,646	\$ 2,361,281	\$ 398,331	\$ 3,312,223	\$ 2,700,354	\$ 478,828	\$ 9,780,119	\$ 4,800,783	\$ 3,991,438	\$ 11,263,477	\$ 70,589,480
LIABILITIES AND FUND BALANCES (DEFICIT)											
Liabilities:											
Accounts payable and accruals	\$ 10,312,535	\$ 246,250	\$ 86,809	\$ 699,194	\$ 128,382	\$ 64,249	\$ 662,261	\$ 447,177	\$ 168,551	\$ 723,461	\$ 13,538,869
Due to other funds (Note 8)	-	-	-	-	783,775	535,958	-	-	-	-	1,319,733
Due to other governmental units	1,605,838	113	25,503	-	13,360	18,430	-	-	-	-	1,663,244
Deferred revenues	583,197	-	-	145,270	-	4,692	77,793	162,246	-	-	973,198
Customer deposits	-	-	-	-	-	-	-	178,297	-	-	178,297
Total liabilities	12,501,570	246,363	112,312	844,464	925,517	623,329	740,054	787,720	168,551	723,461	17,673,341
Fund balances (deficit):											
Reserved for:											
Perpetual care	-	-	-	-	-	-	-	-	-	3,406,693	3,406,693
Nonexpendable Trust principal	-	111,898	-	-	-	-	-	-	-	25,000	136,898
Museum and Library purchases	-	222,309	77,292	-	-	-	-	-	-	-	299,601
Authorized projects	-	-	-	-	-	-	7,996,770	2,817,507	3,822,887	-	14,637,164
Inventories	-	-	-	-	-	-	-	-	-	20,382	20,382
Encumbrances	1,389,912	42,135	22,520	165,610	44,877	-	1,043,295	1,195,556	-	-	3,903,905
Unreserved, designated for debt service: Debt Service fund	-	-	-	-	-	-	-	-	-	640,043	640,043
Unreserved, designated for ensuing year budget, reported in:											
General fund	415,000	-	-	-	-	-	-	-	-	-	415,000
Special revenue funds	-	-	-	-	1,404,412	-	-	-	-	311,275	1,715,687
Unreserved, designated for compensated absences, reported in:											
General fund	7,251,637	-	-	-	-	-	-	-	-	-	7,251,637
Special revenue funds	-	457,917	186,207	243,849	325,548	-	-	-	-	253,756	1,467,277
Unreserved, undesignated, reported in:											
General fund	9,944,527	-	-	-	-	-	-	-	-	-	9,944,527
Special revenue funds	-	1,280,659	-	2,058,300	-	(144,501)	-	-	-	5,882,867	9,077,325
Total fund balance (deficit)	19,001,076	2,114,918	286,019	2,467,759	1,774,837	(144,501)	9,040,065	4,013,063	3,822,887	10,540,016	52,916,139
Total liabilities and fund balances	\$ 31,502,646	\$ 2,361,281	\$ 398,331	\$ 3,312,223	\$ 2,700,354	\$ 478,828	\$ 9,780,119	\$ 4,800,783	\$ 3,991,438	\$ 11,263,477	\$ 70,589,480

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Reconciliation of Fund Balances of Governmental Funds to the
Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2005

Total governmental funds, fund balances	\$ 52,916,139
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets, at cost	318,566,642
Accumulated depreciation	<u>(113,085,999)</u>
Net capital assets	205,480,643

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These assets consist of:

Deferred issuance costs	2,652,900
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

18,824,227

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Bonds and contracts payable	(120,297,777)
Premium on bonds	(358,908)
Compensated absences	(9,991,650)
Insurance claims	(5,350,000)
Accrued interest on bonds	<u>(1,496,786)</u>

Net assets of governmental activities	<u>\$ 142,378,788</u>
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City of Grand Rapids, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2005

	Major Governmental Funds										
	General	Library	Museum	Refuse	Major Streets	Local Streets	Street Capital Construction	General Capital Construction	Building Authority Construction	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:											
Property taxes	\$ 11,675,272	\$ 9,493,401	\$ -	\$ 5,778,172	\$ -	\$ -	\$ -	\$ 3,718,560	\$ -	\$ -	\$ 30,665,405
City income taxes	52,200,815	-	-	-	-	-	-	909,488	-	-	53,110,303
State shared taxes	23,604,093	-	-	-	10,928,457	2,927,308	-	-	-	-	37,459,858
Licenses and permits	213,435	-	-	-	-	-	-	-	-	-	213,435
Fines and forfeitures	564,655	195,160	-	-	-	-	-	-	-	2,292,263	2,505,698
Federal grants	1,453,133	125,000	2,195	-	-	-	886,279	8,755	-	719,804	1,479,619
State grants	427,045	172,308	236,389	96,729	-	-	349,682	22,671	-	8,641,936	11,117,298
Other grants & contributions	1,032,594	438,370	2,417,644	-	-	-	94,965	102,975	-	76,904	1,381,728
Charges for services	13,837,612	260,219	2,798,905	4,599,103	2,516,778	57,443	64,210	-	-	456,822	4,543,370
Investment earnings	901,846	136,276	11,240	116,336	300,619	191	3,958	149,533	95,566	3,250,721	27,384,991
Miscellaneous	1,290,121	-	299,066	-	44,741	3,363	-	162,181	(3,989)	282,749	1,998,314
Total revenues	107,200,621	10,820,734	5,765,439	10,590,340	13,790,595	2,988,305	1,399,094	5,074,163	91,577	18,256,172	175,977,040
Expenditures:											
Current:											
General government	27,471,100	-	-	-	-	-	-	1,511,909	-	-	28,983,009
Public safety	58,748,542	-	-	-	-	-	-	-	-	-	58,748,542
Public works	4,390,589	-	-	10,416,884	8,407,763	5,060,539	-	-	-	751,505	59,500,047
Culture and recreation	8,284,517	7,997,534	7,137,885	-	-	-	-	-	-	2,481,133	30,756,908
Urban and community development	5,221,872	-	-	-	-	-	-	-	-	22,727	23,442,663
Debt service:											
Principal	556,187	-	-	-	170,247	-	-	802,996	-	3,479,190	5,008,620
Interest, fees, and bond issue costs	578,287	-	-	-	62,418	-	-	522,288	-	4,851,823	6,014,816
Capital outlay	-	1,157,348	-	20,661	-	-	10,803,059	3,166,216	3,042,462	-	18,189,746
Total expenditures	105,251,094	9,154,882	7,137,885	10,437,545	8,640,428	5,060,539	10,803,059	6,003,409	3,042,462	25,584,859	191,116,162
Excess (deficit) of revenues over expenditures	1,949,527	1,665,852	(1,372,446)	152,795	5,150,167	(2,072,234)	(9,403,965)	(929,246)	(2,950,885)	(7,328,687)	(15,139,122)
Other financing sources (uses):											
Transfers in (Note 8)	8,509,509	-	1,907,222	-	-	1,750,000	5,700,000	-	-	8,254,424	26,121,155
Transfers out (Note 8)	(6,891,033)	(1,716,400)	(20,064)	(205,160)	(7,741,435)	(146,215)	-	(2,507,759)	(354,828)	(3,006,532)	(22,589,426)
Sale of capital assets	-	-	-	-	-	-	-	-	-	2,544,000	2,544,000
Face value of bonds and contracts issued	-	-	-	-	-	-	-	-	-	13,443,001	18,225,000
Discount on refunding bonds	-	-	-	-	-	-	-	-	4,781,999	-	(81,063)
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	(13,030,000)	(13,030,000)
Total other financing sources (uses)	1,618,476	(1,716,400)	1,887,158	(205,160)	(7,741,435)	1,603,785	5,700,000	(2,507,759)	4,427,171	8,123,830	11,189,666
Net change in fund balances	3,568,003	(50,548)	514,712	(52,365)	(2,591,268)	(468,449)	(3,703,965)	(3,437,005)	1,476,286	795,143	(3,949,456)
Fund balances (deficit), beginning, as restated (Note 11)	15,433,073	2,165,466	(228,693)	2,520,124	4,366,105	323,948	12,744,030	7,450,068	2,346,601	9,744,873	56,865,595
Fund balances (deficit), ending	\$ 19,001,076	\$ 2,114,918	\$ 286,019	\$ 2,467,759	\$ 1,774,837	\$ (144,501)	\$ 9,040,065	\$ 4,013,063	\$ 3,822,887	\$ 10,540,016	\$ 52,916,139

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
for the year ended June 30, 2005

Net change in fund balances - total governmental funds \$ (3,949,456)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$10,173,833) exceeded capital outlays (\$3,952,215). (6,221,618)

In the statement of activities only the gain on the sale of property and equipment is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the cost of the land sold. (755,322)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt issued	(18,225,000)
Premium on bonds issued	(48,632)
Repayments	17,385,376
Issue Costs on bonds	584,589
Deferred on refunding of bonds	825,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest	(46,420)
Compensated absences	(536,030)
Other	362,909

Internal service funds are used by management to charge the costs of certain activities, to individual funds. The governmental share of the net expense of the internal service fund is reported in governmental activities.

(2,582,500)

Change in net assets of governmental activities \$ (13,207,104)

City of Grand Rapids, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Major Funds			Nonmajor Proprietary Funds	Totals	Total Internal Service Funds
	Water Supply System	Sewage Disposal System	Auto Parking System			
ASSETS						
Current assets:						
Equity in pooled cash and investments (Note 2)	\$ 25,047,417	\$ 27,294,189	\$ 11,832,391	\$ 538,239	\$ 64,712,236	\$ 20,422,431
Receivables, net	7,163,248	7,468,609	334,220	94,593	15,060,670	1,137,576
Due from other governmental units	1,536	500,000	-	-	501,536	-
Inventory	1,710,057	1,325,212	-	24,854	3,060,123	2,304,946
Restricted Assets (Note 4)	6,675,958	8,667,868	-	-	15,343,826	-
Deferred expenses and other assets	-	-	319,190	-	319,190	33,383
Total current assets	<u>40,598,216</u>	<u>45,255,878</u>	<u>12,485,801</u>	<u>657,686</u>	<u>98,997,581</u>	<u>23,898,336</u>
Noncurrent assets:						
Restricted assets (Note 4)	-	17,441,428	-	-	17,441,428	-
Other assets	-	-	-	234,601	234,601	-
Capital assets: (Note 5)						
Non-depreciable	7,571,759	39,092,335	4,415,059	5,255	51,084,408	196,607
Depreciable	349,195,207	401,113,323	41,032,887	5,033,126	796,374,543	42,583,828
Less accumulated depreciation	<u>(110,893,416)</u>	<u>(153,941,745)</u>	<u>(14,430,258)</u>	<u>(2,440,837)</u>	<u>(281,706,256)</u>	<u>(30,600,440)</u>
Total noncurrent assets	<u>245,873,550</u>	<u>303,705,341</u>	<u>31,017,688</u>	<u>2,832,145</u>	<u>583,428,724</u>	<u>12,179,995</u>
Total assets	<u>\$ 286,471,766</u>	<u>\$ 348,961,219</u>	<u>\$ 43,503,489</u>	<u>\$ 3,489,831</u>	<u>\$ 682,426,305</u>	<u>\$ 36,078,331</u>

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Major Funds			Nonmajor Proprietary Funds	Totals	Total Internal Service Funds
	Water Supply System	Sewage Disposal System	Auto Parking System			
LIABILITIES						
Current liabilities:						
Vouchers and accounts payable	\$ 458,739	\$ 1,017,499	\$ 195,799	\$ 38,782	\$ 1,710,819	\$ 1,298,441
Accrued interest payable	2,418,803	3,136,905	207,504	3,071	5,766,283	20,696
Deferred revenues	-	-	-	-	-	218,109
Current portion of claims payable	200,000	800,000	10,000	-	1,010,000	6,475,000
Current maturities of bonds, notes and contracts payable (Note 6)	-	48,000	847,724	67,552	963,276	1,737,567
Current portion of compensated absences and workers' compensation	1,366,546	839,464	170,723	54,697	2,431,430	1,178,100
Total current liabilities	4,444,088	5,841,868	1,431,750	164,102	11,881,808	10,927,913
Liabilities payable from restricted assets (Note 6):						
Current maturities of bonds, notes and contracts payable	5,800,000	5,296,736	-	-	11,096,736	-
Other	1,094,285	3,371,132	-	-	4,465,417	-
	6,894,285	8,667,868	-	-	15,562,153	-
Noncurrent liabilities (net of current portion) (Note 6):						
Bonds payable	101,094,458	142,017,224	17,296,466	-	260,408,148	-
Contracts and notes payable	-	951,000	-	902,632	1,853,632	4,678,644
General Claims payable	-	-	-	-	-	275,000
Bond premium	1,319,961	809,184	-	-	2,129,145	19,258
Compensated absences and workers' compensation	-	-	-	-	-	1,123,540
Total noncurrent liabilities	102,414,419	143,777,408	17,296,466	902,632	264,390,925	6,096,442
Total liabilities	113,752,792	158,287,144	18,728,216	1,066,734	291,834,886	17,024,355
NET ASSETS						
Invested in capital assets net of related debt	138,639,579	117,118,354	13,192,688	1,861,961	270,812,582	5,777,909
Restricted:						
Debt service	5,349,932	3,970,838	-	-	9,320,770	-
Unspent Bond Proceeds	-	21,831,598	-	-	21,831,598	-
Unrestricted	28,729,463	47,753,285	11,582,585	561,136	88,626,469	13,276,067
Total net assets	172,718,974	190,674,075	24,775,273	2,423,097	390,591,419	19,053,976
Total liabilities and net assets	\$ 286,471,766	\$ 348,961,219	\$ 43,503,489	\$ 3,489,831		\$ 36,078,331

Adjustment to reflect the consolidation of internal service fund
activities related to enterprise funds.

Net assets of business-type activities

824,177
\$ 391,415,596

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
for the year ended June 30, 2005

	Major Funds			Nonmajor		Total
	Water	Sewage	Auto	Proprietary	Totals	Internal
	Supply System	Disposal System	Parking System	Funds		Service Funds
Operating revenues:						
Charges for services	\$ 2,352,703	\$ 32,978,880	\$ 10,007,874	\$ 1,657,179	\$ 46,996,636	\$ 53,861,128
Sales	34,607,297	-	-	329,895	34,937,192	-
Miscellaneous	489,668	165,277	-	1,103	656,048	1,539,950
Total operating revenues	37,449,668	33,144,157	10,007,874	1,988,177	82,589,876	55,401,078
Operating expenses:						
Personal services	14,612,483	7,791,874	3,298,641	1,302,358	27,005,356	8,935,134
Supplies and materials	2,271,641	1,450,125	174,799	303,855	4,200,420	5,894,060
Utilities	4,767,308	2,062,494	350,105	132,307	7,312,214	1,403,949
Contractual services	734,909	4,529,885	1,315,788	188,982	6,769,564	4,557,459
Other services and charges	2,018,418	2,138,178	1,427,920	203,749	5,788,265	33,906,255
Depreciation	6,412,000	7,980,013	1,372,080	218,064	15,982,157	4,317,761
Total operating expenses	30,816,759	25,952,569	7,939,333	2,349,315	67,057,976	59,014,618
Operating income (loss)	6,632,909	7,191,588	2,068,541	(361,138)	15,531,900	(3,613,540)
Nonoperating revenues (expenses):						
Federal grants	-	64,832	-	-	64,832	-
Interest revenue	867,600	946,662	173,867	17,715	2,005,844	530,719
Miscellaneous revenue	326,729	74,836	63,023	-	464,588	-
Payment to Convention Arena Authority	-	(57,532)	-	-	(57,532)	-
Gain on sale of capital assets	-	-	-	-	-	277,713
Interest expense and paying agent fees	(6,612,762)	(4,684,210)	(775,751)	(45,747)	(12,118,470)	(316,960)
Total nonoperating revenues (expenses)	(5,418,433)	(3,655,412)	(538,861)	(28,032)	(9,640,738)	491,472
Income (loss) before capital contributions and transfers	1,214,476	3,536,176	1,529,680	(389,170)	5,891,162	(3,122,068)
Capital contributions	3,215,238	4,017,068	-	37,012	7,269,318	-
Transfers in (Note 8)	2,037,157	-	-	390,341	2,427,498	1,372,102
Transfers out (Note 8)	(1,103,723)	(2,933,138)	(1,470,255)	(167,503)	(5,674,619)	(1,656,710)
Change in net assets	5,363,148	4,620,106	59,425	(129,320)	9,913,359	(3,406,676)
Total net assets - beginning	167,355,826	186,053,969	24,715,848	2,552,417		22,460,652
Total net assets - ending	\$ 172,718,974	\$ 190,674,075	\$ 24,775,273	\$ 2,423,097		\$ 19,053,976
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					748,240	
Change in net assets of business-type activities					\$ 10,661,599	

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Cash Flows
Proprietary Funds
for the year ended June 30, 2005

	Business-Type Activities - Enterprise Funds					Total Internal Service Funds
	Major Funds			Nonmajor Enterprise Funds	Totals	
	Water Supply System	Sewage Disposal System	Auto Parking System			
Cash flows from operating activities:						
Receipts from customers	\$ 36,973,219	\$ 32,215,294	\$ 10,023,372	\$ 1,954,672	\$ 81,166,557	\$ 53,586,436
Payments to suppliers	(10,958,609)	(10,950,087)	(3,484,302)	(900,280)	(26,293,278)	(46,276,146)
Payments to employees	(9,534,880)	(5,033,652)	(2,359,608)	(987,410)	(17,915,550)	(5,721,786)
Payments for payroll taxes and benefits	(4,902,542)	(2,660,781)	(942,574)	(303,078)	(8,808,975)	(2,775,829)
Other operating revenues	312,228	74,787	63,022	1,103	451,140	1,539,950
Net cash provided (used) by operating activities	11,889,416	13,645,561	3,299,910	(234,993)	28,599,894	352,625
Cash flows from noncapital financing activities:						
Proceeds from grants	-	7,299	-	-	7,299	-
Transfers from other funds	2,037,157	-	-	390,341	2,427,498	1,372,102
Transfers to other funds	(1,103,723)	(2,933,138)	(1,470,255)	(167,503)	(5,674,619)	(1,656,710)
Net cash provided (used) by noncapital financing activities	933,434	(2,925,839)	(1,470,255)	222,838	(3,239,822)	(284,608)
Cash flows from capital and related financing activities:						
Proceeds from capital debt	-	37,902,553	-	-	37,902,553	200,316
Capital contributions	3,580,221	522,371	-	45,001	4,147,593	-
Purchase of fixed assets	(13,509,426)	(41,375,115)	-	(44,044)	(54,928,585)	(1,506,205)
Sale of fixed assets	14,500	-	(109,144)	3,039	(91,605)	316,205
Principal paid on capital debt	(5,505,000)	(5,257,312)	(821,697)	(280,816)	(11,864,825)	(2,191,216)
Interest paid on capital debt	(6,148,708)	(3,673,381)	(688,037)	(46,540)	(10,556,666)	(318,398)
Net cash provided (used) by capital and related financing activities	(21,568,413)	(11,880,884)	(1,618,878)	(323,360)	(35,391,535)	(3,499,298)
Cash flows from investing activities:						
Interest received	867,600	946,662	173,297	17,391	2,004,950	501,348
Net increase (decrease) in equity in pooled cash and investments	(7,877,963)	(214,500)	384,074	(318,124)	(8,026,513)	(2,929,933)
Equity in pooled cash and investments, beginning of year (including \$21,018,321 for the Sewage System, reported in restricted accounts)	32,925,379	48,359,120	11,448,317	856,363	93,589,179	23,352,364
Equity in pooled cash and investments, end of year (including \$20,850,433 for the Sewage System, reported in restricted accounts)	\$ 25,047,416	\$ 48,144,620	\$ 11,832,391	\$ 538,239	\$ 85,562,666	\$ 20,422,431

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Cash Flows
Proprietary Funds
for the year ended June 30, 2005

for the year ended June 30, 2005

	Business-Type Activities - Enterprise Funds					
	Major Funds			Nonmajor		Total
	Water	Sewage	Auto	Enterprise		Internal
	Supply System	Disposal System	Parking System	Funds	Totals	Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 6,632,909	\$ 7,191,588	\$ 2,068,541	\$ (361,138)	\$ 15,531,900	\$ (3,613,540)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	6,412,000	7,980,013	1,372,080	218,064	15,982,157	4,317,761
Miscellaneous cash received	312,228	74,787	63,022	-	450,037	-
Change in assets and liabilities:						
Increase in accounts receivable	(625,041)	(419,281)	(2,793)	(32,402)	(1,079,517)	(492,801)
Increase in intergovernmental receivables	(1,536)	(500,000)	-	-	(501,536)	-
(Increase) decrease in inventory	150,128	(9,581)	-	(24,854)	115,693	(160,282)
(Increase) decrease in deferred expenses	-	-	18,291	(118)	18,173	-
Decrease in vouchers and accounts payable	(1,166,333)	(704,574)	(225,690)	(46,415)	(2,143,012)	(855,615)
Increase in due to other funds	-	-	-	-	-	1,474
Increase (decrease) in deferred revenues	-	(64,832)	10,000	-	(54,832)	218,109
Increase in general claims payable	-	-	-	-	-	500,000
Increase (decrease) in compensated absences	175,061	97,441	(3,541)	11,870	280,831	437,519
Total adjustments	5,256,507	6,453,973	1,231,369	126,145	13,067,994	3,966,165
Net cash provided (used) by operating activities	\$ 11,889,416	\$ 13,645,561	\$ 3,299,910	\$ (234,993)	\$ 28,599,894	\$ 352,625

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

		Private Purpose Trust	
	Total Pension Trust Funds	Urban Cooperation Board	Agency Tax Fund
ASSETS			
Equity in pooled cash and investments (Note 2)	\$ -	\$ 417,207	\$ -
Investments held by trustee (Note 2):			
Cash and money market funds	11,971,329	-	-
United States Government Securities	98,431,201	-	-
State and municipal bonds	2,908,302	-	-
Corporate bonds	61,870,609	-	-
Common stocks and equity mutual funds	416,802,166	-	-
Collateral held by broker under securities lending	58,478,647	-	-
Other	68,905,830	-	-
Receivables, net:			
Investment securities sold	4,674,073	-	-
Property taxes	-	-	4,358,475
Other accounts	1,351,475	-	-
Accrued interest	2,081,123	1,232	-
Total assets	<u>\$ 727,474,755</u>	<u>\$ 418,439</u>	<u>\$ 4,358,475</u>
LIABILITIES			
Compensated absences	\$ 18,648	\$ -	\$ -
Investment securities purchased	16,111,540	-	-
Vouchers and accounts payable	447,531	20,000	-
Due to other funds (Note 8)	26,551	-	39,797
Due to other governmental units	-	-	4,318,678
Liabilities under securities lending program	58,478,647	-	-
Total liabilities	<u>75,082,917</u>	<u>20,000</u>	<u>4,358,475</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	652,391,838	398,439	-
Total net assets	<u>652,391,838</u>	<u>398,439</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 727,474,755</u>	<u>\$ 418,439</u>	<u>\$ 4,358,475</u>

City of Grand Rapids, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
for the year ended June 30, 2005

	Total Pension Trust Funds	Private Purpose Trust Urban Cooperation Board
ADDITIONS		
Plan Contributions:		
Employer	\$ 9,360,695	\$ -
Plan members	4,901,493	-
Total contributions	14,262,188	-
Member agency contributions	-	273,961
Investment earnings:		
Interest and dividends	11,113,812	7,499
Net appreciation in fair value of investments	52,812,270	-
Total investment earnings	63,926,082	7,499
Investment management expense	(2,252,232)	-
Net income from investment activities	61,673,850	7,499
Securities lending income	44,976	-
Securities lending expenses	(15,728)	-
Net income from securities lending activities	29,248	-
Total net investment income	61,703,098	7,499
Total additions	75,965,286	281,460
DEDUCTIONS		
Benefits paid	31,410,032	-
Grants and Awards	-	150,780
Administration expenses	770,458	-
Total deductions	32,180,490	150,780
Change in net assets	43,784,796	130,680
Total net assets - beginning	608,607,042	267,759
Total net assets - ending	\$ 652,391,838	\$ 398,439

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Combining Statement of Net Assets
Component Units
June 30, 2005

	Downtown Development Authority	Tax Increment Financing Authority	SmartZone Development Authority	Brownfield Redevelopment Authority	61st District Court	Totals
ASSETS						
Equity in pooled cash and investments (Note 2)	\$ 12,047,308	\$ 770,907	\$ 533,387	\$ 63,169	\$ 2,482,630	\$ 15,897,401
Investments held by trustee (Note 2)	5,476,889	-	38,824	-	-	5,515,713
Receivables, net:						
Taxes	-	(156)	-	-	-	(156)
Special assessments	1,079	-	-	-	-	1,079
Contracts	4,055,000	-	-	-	-	4,055,000
Loans	371	-	-	-	-	371
Accrued interest	118,193	887	1,170	-	5,128	125,378
Due from other governmental units	-	-	-	-	81,209	81,209
Deferred expenditures	-	-	-	-	114,812	114,812
Capital Assets (Note 5):						
Non-depreciable	10,473,491	1,280,000	-	-	-	11,753,491
Depreciable	75,556,407	3,510,996	-	-	-	79,067,403
Less: accumulated depreciation	(22,664,103)	(1,079,088)	-	-	-	(23,743,191)
Total assets	<u>\$ 85,064,635</u>	<u>\$ 4,483,546</u>	<u>\$ 573,381</u>	<u>\$ 63,169</u>	<u>\$ 2,683,779</u>	<u>\$ 92,868,510</u>
LIABILITIES						
Current liabilities:						
Vouchers payable and accruals	\$ 1,239,543	\$ 39,763	\$ 20,000	\$ 4,382	\$ 1,790,762	\$ 3,094,450
Accrued Interest	200,133	9,954	15,499	-	-	225,586
Due to primary government	-	-	-	45,000	-	45,000
Due to other governmental units	-	-	-	-	148,511	148,511
Due to participants	-	-	-	3,286	364,464	367,750
Bonds and contracts payable due in less than 1 year (Note 6)	2,580,054	57,600	-	-	-	2,637,654
Compensated absences and workers' compensation	21,615	-	2,144	-	316,606	340,365
Non-current liabilities (Note 6):						
Bonds and contracts payable due in more than 1 year (Note 6)	53,914,476	1,141,200	3,873,592	-	-	58,929,268
Compensated absences and workers' compensation	15,020	-	1,490	-	220,014	236,524
Total liabilities	<u>57,970,841</u>	<u>1,248,517</u>	<u>3,912,725</u>	<u>52,668</u>	<u>2,840,357</u>	<u>66,025,108</u>
NET ASSETS						
Invested in capital assets, net of related debt	6,871,265	2,513,108	-	-	-	9,384,373
Restricted for authorized projects	20,222,529	721,921	-	10,501	-	20,954,951
Unrestricted	-	-	(3,339,344)	-	(156,578)	(3,495,922)
Total net assets (deficit)	<u>27,093,794</u>	<u>3,235,029</u>	<u>(3,339,344)</u>	<u>10,501</u>	<u>(156,578)</u>	<u>26,843,402</u>
Total liabilities and net assets	<u>\$ 85,064,635</u>	<u>\$ 4,483,546</u>	<u>\$ 573,381</u>	<u>\$ 63,169</u>	<u>\$ 2,683,779</u>	<u>\$ 92,868,510</u>

The accompanying notes are an integral part of the financial statements.

City of Grand Rapids, Michigan
Combining Statement of Activities
Component Units
for the year ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets					Total
	Expenses	Charges for Services	Operating Grants and Contributions	Downtown Development Authority	Tax Increment Financing Authority	SmartZone Development Authority	Brownfield Redevelopment Authority	61st District Court	
Urban & community development:									
Downtown Development Authority	\$ 11,271,782	\$ 234,639	\$ 248,200	\$ (10,788,943)	\$ -	\$ -	\$ -	\$ -	\$ (10,788,943)
Tax Increment Financing Authority	401,479	-	-	-	(401,479)	-	-	-	(401,479)
SmartZone Development Authority	384,602	-	57,500	-	-	(327,102)	-	-	(327,102)
Brownfield Redevelopment Authority	147,374	51,000	-	-	-	-	(96,374)	-	(96,374)
Public safety:									
61st District Court	14,141,582	7,395,436	6,552,359	-	-	-	-	(193,787)	(193,787)
	<u>\$ 26,346,819</u>	<u>\$ 7,681,075</u>	<u>\$ 6,858,059</u>	<u>(10,788,943)</u>	<u>(401,479)</u>	<u>(327,102)</u>	<u>(96,374)</u>	<u>(193,787)</u>	<u>(11,807,685)</u>
General revenues:									
Investment earnings				478,390	18,515	15,529	3,755	37,209	553,398
Property taxes				8,772,143	305,330	319,794	111,164	-	9,508,431
Total general revenues				9,250,533	323,845	335,323	114,919	37,209	10,061,829
Change in net assets				(1,538,410)	(77,634)	8,221	18,545	(156,578)	(1,745,856)
Net assets (deficit) - beginning				28,632,204	3,312,663	(3,347,565)	(8,044)	-	28,589,258
Net assets (deficit) - ending				<u>\$ 27,093,794</u>	<u>\$ 3,235,029</u>	<u>\$ (3,339,344)</u>	<u>\$ 10,501</u>	<u>\$ (156,578)</u>	<u>\$ 26,843,402</u>

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

THE REPORTING ENTITY

The City of Grand Rapids, Michigan (the "City") was incorporated as a village in 1838. It was incorporated as a city under a mayor-council form of government in 1850 and remained under that form of government until 1916 when the commission-manager system of government was adopted. The City provides the following services: public safety, public works, streets, recreation and culture, urban development and general administrative services.

In accordance with generally accepted accounting principles, these financial statements present the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationship with the City.

Blended Component Units—Blended component units of the City have been included in the various fund types as follows:

The Grand Rapids Building Authority ("GRBA") was created by the City of Grand Rapids under the provisions of Act 31, Public Acts of 1948 of the State of Michigan (First Extra Session), as amended, and is governed by a three member board appointed by the City Commission. Although it is legally separate from the City, the GRBA is reported as if it were part of the primary government because its sole purpose is to finance and construct facilities for any legitimate public purpose of the City. The City has included in its financial statements the capital projects funds for projects in process during the fiscal year as well as debt service funds used for the accumulation of resources to repay the related debt on current projects and those previously financed. Likewise, the City has incorporated the bond issues and the related capital assets in governmental activities for Government-wide presentation. For completed proprietary project facilities, the City has included the capital assets and related debt within the specific proprietary funds and reported them in the business activities column of the Government-wide presentation.

The City of Grand Rapids General Retirement System ("General Retirement System") was established by City Ordinance which provides that general administration and responsibility for the operation of the General Retirement System is vested in a seven member Board of Trustees, the majority of whom are appointed by the City Commission (three of the seven members are common among the General and Police and Fire Retirement Systems). The General Retirement System covers all eligible employees of the City of Grand Rapids, except for police officers and firefighters, under a defined benefit pension plan. Funding for the General Retirement System is primarily provided by the City. Additional details of the General Retirement System are included in Note 7.

The City of Grand Rapids Police and Fire Retirement System ("Police and Fire Retirement System") was established by City Ordinance which provides that the general administration and responsibility for the operation of the Police and Fire Retirement System is vested in a seven member Board of Trustees, the majority of whom are appointed by the City Commission (three of the seven members are common among the General and Police and Fire Retirement Systems). The Police and Fire Retirement System covers all the eligible uniformed police and fire personnel of the City of Grand Rapids under a defined benefit pension plan. Funding for the Police and Fire Retirement System is primarily provided by the City. The fiscal year-end of this system changed to December 31st during the 2004 fiscal year. Additional details of the Police and Fire Retirement System are included in Note 7.

1. **Summary of Significant Accounting Policies, continued:**

Discretely Presented Component Units—The component unit column in the combined financial statements includes the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City. The City has the ability to impose its will as it must annually approve their budgets and their development and tax increment financing plans.

The Grand Rapids Downtown Development Authority ("DDA") was created under the provisions of Act 197, Public Acts of 1975 of the State of Michigan, to correct and prevent deterioration, encourage historic preservation and promote economic growth of business districts in the City. The DDA is under the supervision and control of a nine member Board consisting of the Mayor and eight members appointed by the Mayor and confirmed by the City Commission. Tax increment financing is the DDA's primary source of revenue.

The Grand Rapids Tax Increment Financing Authority ("TIFA") was created in 1985 under the provisions of Act 450, Public Acts of 1980 of the State of Michigan, to provide for the development of the Monroe North Development Area through tax increment revenues. The TIFA is under the supervision and control of an eleven member Board appointed by the Mayor and confirmed by the City Commission.

The City of Grand Rapids SmartZone Local Development Authority ("SmartZone") was created on October 16, 2001 under the provisions of the Local Development Financing Act, Act 281 of the Public Acts of 1986 of the State of Michigan, as amended by Act 248 of the Public Acts of 2000 of the State of Michigan, to promote economic development within an area, or areas, of specified boundaries. The SmartZone is under the supervision and control of an eleven member Board. Seven members are appointed by the Mayor, one by the Kent County Commission, one by the President of Grand Rapids Community College, and two by the Superintendent of the Grand Rapids Public Schools.

The City of Grand Rapids Brownfield Redevelopment Authority ("Brownfield") was created under the provisions of Act 381, Public Acts of 1996 of the State of Michigan. The purpose of the Authority is to promote the revitalization of environmentally distressed areas within the boundaries of the City.

State of Michigan 61st District Court is one of 104 districts in the State of Michigan District Court system, which in turn is part of the one Court of Justice, established by Article 6 of the Michigan Constitution. The City is the Local Funding Unit (LFU) for the 61st District Court, in accordance with the Revised Judicature Act of 1961, Public Acts 374 and 388 of 1996 and Supreme Court Administrative Order No. 1998-5. In most instances providing funding gives control, in this case it does not. Rather, the 61st District Court is subject to control by the Michigan Supreme Court. The 61st District Court accounts for the collection and payment to the State of Michigan, Kent County and the City of Grand Rapids of fines and fees collected on their behalf. Bond and other trust money held by the Court are also accounted for. The City is financially accountable for the 61st District Court. The 61st District Court does not issue separate financial statements.

1. Summary of Significant Accounting Policies, continued:

Joint Ventures—The joint ventures of the City have not been included in the City's financial statements. They are:

The City of Grand Rapids and County of Kent Joint Building Authority ("JBA") was created by the City and the County of Kent, Michigan (the "County") under the provisions of Act 31, Public Acts of 1948 of the State of Michigan (First Extra Session), as amended. The JBA is governed by a three member Board of Commissioners of which one member is appointed by the City Commission, one member is appointed by the County Commission and one member is appointed by joint action of the City Commission and the County Commission. Because it is legally separate from the City, the JBA is not reported as part of the primary government. Summary financial information is as follows:

	<u>At June 30, 2005</u>		<u>Year ended June 30, 2005</u>
Total Assets	\$ 233,293,453	Revenues	\$ 8,991,839
Total Liabilities	103,201,442	Capital Contributions	25,196,880
Total Net Assets	130,092,011	Expenses	(9,832,707)
Total Liabilities and Net Assets	\$ 233,293,453	Change in Net Assets	\$ 24,356,012

The Grand Rapids—Kent County Convention / Arena Authority ("C/AA") was created when the City entered into an agreement with the County of Kent to establish an authority pursuant to the Convention Facility Authority Act. The C/AA is a separate legal entity established for the purpose of acquiring, constructing and operating convention facilities. The operating agreement provides that any facility operating deficits will be covered first by the net income of other C/AA facilities, second by an operating reserve fund and third by certain lodging excise tax revenues. The City and the County will share any remaining deficit equally. Summary un-audited financial information for 2003 is as follows:

	<u>At June 30, 2003</u>		<u>Year ended June 30, 2003</u>
Total Assets	\$ 51,711,714	Revenues	\$ 77,282,145
Total Liabilities	12,177,408	Expenses	(67,845,938)
Total Net Assets	39,534,306	Change in Net Assets	\$ 9,436,207
Total Liabilities and Net Assets	\$ 51,711,714		

Grand Valley Regional Biosolids Authority was created by the City and the City of Wyoming under the provisions of Act 233, (Public Acts of Michigan of 1955, as amended, MCL 124.281), for the development, construction and operation of a regional biosolids management project. The City and Wyoming will share equally the initial costs, ongoing administrative costs and planning and design of the project. Articles of incorporation were adopted April 2004.

	<u>At June 30, 2005</u>		<u>Year ended June 30, 2005</u>
Total Assets	\$ 1,005,707	Revenues	\$ 5,846
Total Liabilities	1,000,000	Expenses	(139)
Total Net Assets	5,707	Change in Net Assets	\$ 5,707
Total Liabilities and Net Assets	\$ 1,005,707		

1. Summary of Significant Accounting Policies, continued:

REPORT COPIES

Individual audited financial reports of the component units and joint ventures of the City can be obtained from the City Comptroller's Office at City Hall, except Pension Fund reports—which can be obtained from the City's Pension Office. Selected reports are also available on the City's web site at www.ci.grand-rapids.mi.us.

City of Grand Rapids
Comptroller's Office
300 Monroe Avenue NW
Grand Rapids, Michigan 49503
(616) 456-3189

City of Grand Rapids
Pension Office
233 East Fulton Avenue, Suite 216
Grand Rapids, Michigan 49503
(616) 456-4300

BASIC FINANCIAL STATEMENTS

The basic financial statements include both Government-wide financial statements (based on the City as a whole) and Fund statements (based on individual funds). Both the Government-wide and Fund financial statements categorize primary activities as either governmental or business-type.

Government-wide financial statements:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. On the statement of net assets, net assets are reported in three categories as follows:

1. *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other related debt attributed to the acquisition, construction, or improvements of those assets.
2. *Restricted net assets* result when constraints placed on the use of assets are either externally imposed by creditors, grantors, or contributors or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories and thus are generally available for use in operations. Unrestricted net assets are sometimes segregated and designated to indicate that management does not consider them to be available for general operations. Such designations can be increased, decreased or eliminated at management's discretion.

The Government Wide Statement of Activities reflects both the gross and net costs per functional category (General Governmental, Public Safety, Public Works, Culture and Recreation, and Urban and Community Development), which are otherwise being supported by general government revenues (property, income tax and certain intergovernmental revenues). The Statement of Activities analyzes gross expenses (including depreciation) by program revenues, operating and capital grants by functional area. Revenues reported as program revenues must be directly associated with a function or they are reported as a general revenue. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

1. Summary of Significant Accounting Policies, continued:

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The net expense for each function or activity is normally covered by the City's general revenues.

This government-wide focus is centered on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Funds financial statements:

The Funds financial statements are, in substance, similar to the financial statements presented in the previous financial reporting model. Emphasis in the Funds financial statements is on the major funds in either the governmental or business-type categories. Non-major funds are summarized into a single column by category.

Since the Governmental Fund statements are presented on a different measurement focus and basis of accounting than the Government-wide statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the Fund-based financial statements to the governmental column of the Government-wide presentation.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's ongoing operations. The principal operating revenues of the City's Enterprise and Internal Service Funds are charges to customers for sales and services. The City also recognizes as operating revenue fees intended for the costs of connecting new customers to the system. Operating expenses for Enterprise and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds of the City government (which provide services primarily to the various funds of the government) are presented, in summary form, as part of the Proprietary Fund financial statements. Since the principal user of the internal services are the City's governmental activities these services are allocated and included in the governmental column when presented at the Government-wide level. The costs of these services are allocated to the appropriate functional activity.

When appropriate, surplus or deficits in the Internal Service Funds are allocated back to various users within the Government Wide Statement of Activities.

The City's Fiduciary Funds are presented in the Fund financial statements by type. Since the assets in these funds are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-wide statements.

1. **Summary of Significant Accounting Policies, continued:**

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Government-wide financial statements are reported using the economic measurement focus and the accrual basis of accounting, as are the Proprietary, Internal Services and Fiduciary Fund statements. Revenues are recognized when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 90 days thereafter. Expenditures are recorded when the related fund liability is incurred, except for debt service and expenditures related to certain compensated absences; claims and judgements are recognized when the payment is due.

Property and income taxes, intergovernmental revenue and grants, state-shared taxes, interest earned and payments in lieu of taxes are susceptible to accrual because they are both measurable and available to finance expenditures of the current period.

Entitlements and shared revenues are recorded at the time of receipt or earlier if they meet the accrual criteria. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

For its business-type activities and Proprietary Funds, the City has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow subsequent private-sector (FASB) guidance.

The City of Grand Rapids reports the following major Governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in the other funds.

The Library Fund accounts for the operation, maintenance and capital improvements of the Public Library System. Financing is provided by a dedicated property tax levy, library revenues, contributions and trust assets willed to the City for the purpose of buying new books and other library operations.

The Museum Fund accounts for the operations and maintenance for the Public Museum of Grand Rapids. Financing is provided by user charges, grants, and contributions from the General Fund. Contributions are also received from private sources that are restricted to expenditures for the Public Museum as authorized by the Museum Board.

1. Summary of Significant Accounting Policies, continued:

The Refuse Fund accounts for the collection and removal of trash and debris. Financing is provided by special tax millage, sale of refuse bags and tags, and rentals of trash collection units.

The Major and Local Streets Funds account for the maintenance and construction of all major streets, trunk lines and local streets. Financing is provided by special revenue from P.A. 51 State Shared Gas and Weight Taxes and charges for various services.

The Streets Capital Construction Fund accounts for the construction of capital projects to be used in governmental activities. Financing is provided by bonds, property taxes and contributions from private sources.

The General Capital Construction Fund accounts for the construction for capital projects to be used in governmental activities. Financing is provided by bonds, property taxes and contributions from private sources.

The Grand Rapids Building Authority Construction Fund accounts for the construction projects of the Grand Rapids Building Authority. Current projects include the new Police Headquarters, Community Archive and Research Center and Library Capital Improvements. Financing is provided by bonds and private contributions.

The City of Grand Rapids reports the following major Proprietary funds:

The Water Supply System Fund accounts for the operation and maintenance, capital additions, improvements and retirement of revenue bonds of the water supply system. Financing is provided by user charges and contributions by other funds, municipalities and customers.

The Sewer Disposal System Fund accounts for the operation and maintenance, capital additions, improvements and retirement of bonds of the sewage disposal system. Financing is provided by user charges, federal grants and contributions from other funds, municipalities and customers.

The Auto Parking System Fund accounts for the operations and maintenance, capital additions, improvements and retirement of bonds of the auto parking system. The fund was established to provide parking facilities on and off the streets. Financing is provided by user charges.

Additionally, the City reports the following fund types:

The Internal Service Funds account for data processing, fleet management, facilities management, general purpose inventory items, insurance services and engineering services provided to the City departments on a cost reimbursement basis.

The Pension Trust Funds account for the accumulation of resources to be used for retirement annuity payments in appropriate amounts and times in the future.

The Private Purpose Fund accounts for the money held in fiduciary capacity for the Urban Cooperation Board.

The Agency Funds account for the collection and distribution of property taxes and for the administration and reimbursement of payroll and payroll related costs by certain component units.

1. Summary of Significant Accounting Policies, continued:

USE OF RESOURCES:

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

BUDGETS AND BUDGETARY ACCOUNTING

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

- The Uniform Budgeting Act (P.A. 621 of 1978) of the State of Michigan requires that all General and Special Revenue Funds annually adopt balanced budgets on the modified accrual basis of accounting.

Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis consistent with generally accepted accounting principles ("GAAP").
- Prior to May 31, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the City Commission to obtain taxpayer comments.
- Prior to June 30, a separately issued budget report, which demonstrates legal compliance at the legal level of budgetary control, is enacted through passage of an ordinance.
- Appropriations are authorized by ordinance at the departmental level. This is the legal level of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets.
- Budgeted amounts are as originally adopted, or as amended by the City Commission during the fiscal year.
- The City Comptroller is authorized to transfer budgeted amounts between accounts within the same department of any fund upon written request by a department or division head and approval by the City Manager. Transfers between departments must be approved by the City Commission.
- Supplemental appropriations are approved by the City Commission in the form of budget ordinance amendments. These appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission.

1. Summary of Significant Accounting Policies, continued:

CASH AND INVESTMENTS

Cash resources of the primary government and component units, except for the Pension Funds, are managed by the Treasurer. Bank deposits are stated at cost plus compounded interest received. Investments are stated at fair value. Interest income earned as a result of cash and investment pooling is distributed to the appropriate funds. Interest earned on cash balances of the Streets Capital Construction Fund is recorded in the Major Streets Fund, its primary source of funding.

DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are deferred. Capital grants for capital asset additions to the Proprietary Funds are recorded as receivables and a corresponding increase to revenues when reimbursable project costs are incurred.

In evaluating the appropriate accruals for intergovernmental revenues (grants, subsidies and shared revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and nearly irrevocable. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability.

INVENTORIES

Inventories recorded in the Proprietary Funds are valued at the lower of cost (first-in, first-out) or market. In Governmental Funds, the Public Museum's Gift Shop inventory is valued in the same manner as inventories in the proprietary funds. All other Governmental Funds use the purchase method to account for inventories by charging the inventory items to expenditures at the time of purchase.

CAPITAL ASSETS

Capital assets, which include property, buildings, equipment, and infrastructure assets, are reported in the applicable columns in the government-wide financial statements. Infrastructure, such as roads and bridges, was capitalized for the first time in fiscal year 2002. In accordance with GASB Statement No. 34, the City has until July 1, 2006 to capitalize its infrastructure assets that were acquired or reconstructed prior to July 1, 2001. Capital assets having a useful life in excess of one year with costs in excess of threshold amounts are capitalized. Capital assets are valued at historical cost or estimated cost if actual cost is not available. Donated capital assets are valued at fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects constructed. Interest accrued during the construction phase of capital assets of business-type activities is included as part of the capitalized value. Depreciation is computed using the straight-line method over the estimated useful lives shown in the following table:

1. Summary of Significant Accounting Policies, continued:

Asset Category	Useful Life (Years)	Threshold
Land improvements	20	\$ 10,000
Buildings and structures	20-50	50,000
Leasehold improvements	10	50,000
Equipment	3-30	10,000
Water mains	75	20,000
Sewer service mains	50	20,000
Infrastructure	20-25	1,000,000

PROPERTY AND INCOME TAXES

The City bills and collects its own property taxes. Taxes are levied on July 1 and are due without penalty on or before July 31. The property taxes attach as an enforceable lien on all property as of July 1. Uncollected real property taxes as of March 1 each year are turned over to Kent County for collection. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Since all City property taxes levied are current receivables, tax revenues are recognized when levied. An allowance reducing revenues is recorded for estimated uncollectible delinquent personal property taxes.

The City also acts as the billing and collection agent for the State of Michigan, Kent County, local transit authority ("Interurban Transit Partnership") and the independent school districts within the City limits. The State and school district taxes are billed with the City taxes on the July 1 levy. All Kent County taxes are billed on December 1 and are due without penalty on or before February 14. Taxes collected on behalf of the State, school districts and the County are accounted for in agency funds. Uncollectable State, school district and County real property taxes as of March 1 are also turned over to Kent County for collection.

At July 2004, the total assessed value of all real and personal property in the City subject to *ad valorem* taxation was \$4,852,844,200 before the reductions described in this paragraph. The assessed value generally represents 50% of the estimated current value of the property. Beginning in fiscal year 1995 the State constitution has limited the annual increase in taxable portion of the assessed value of existing property to the lesser of the rate of inflation or 5% until a transfer of ownership of the property occurs. At the time of transfer of ownership of property, all property is assessed at 50% of current value. The total *ad valorem* base was reduced by \$801,774,000 by this limitation, reducing City tax revenues by approximately \$6,393,000 for fiscal year 2005.

Additionally, beginning in fiscal year 1998, State law exempted from virtually all taxation, for a period of 12 years, income earned and property located in the City's six "Renaissance Zones". This exemption reduced the *ad valorem* roll total by approximately \$125,082,000 reducing City property tax revenues by approximately \$997,000 for fiscal year 2005. The City's portion of the property tax levy per \$1,000 of taxable value for fiscal year 2005 was based on the following rates:

1. Summary of Significant Accounting Policies, continued:

	<u>Millage Rate Used</u>	<u>Authorized Millage Rate by either State law or City charter</u>
General operating	4.1256	4.2600
Promotional and advertising	0.0116	\$50,000 maximum
Refuse collection	1.5500	3.0000
Library operating	2.0822	2.1500
Library capital	0.3823	0.3950

An income tax is imposed on income earned within the City regardless of the residence of the taxpayer and on all income of City residents. Residents pay 1.3% of all taxable income and non-residents pay 0.65% of taxable income earned within the City limits.

COMPENSATED ABSENCES

City employees are granted vacation and sick leave in varying amounts based on length of service, terms of collective bargaining agreements, and City policies. Employees are limited by bargaining agreements or policy as to the amount of vacation that can be carried from one calendar year to another. Upon termination, employees are paid for unused vacation at their current rates. Unused accumulated sick leave is paid to employees with ten or more years of continuous service who retire or resign as provided by bargaining agreements on policy. It is the City's policy to recognize as a liability the obligation for vacation pay and sick leave in the government-wide and proprietary funds at the time the liability is incurred. In governmental fund statements, only amounts immediately payable due to terminations are reported as liabilities. A portion of the Governmental Fund balance is reported as Designated for Compensated Absences, representing the vested portion of compensated absences.

SELF INSURANCE

The City is predominantly self-insured (general liability, workers' compensation and health). It is the City's policy to recognize the cost of self-insured claims at the time the liability is incurred in the Enterprise Funds and the Insurance Payment Internal Service Fund, as applicable. Budgetary appropriations are made to the extent that current claims can be anticipated. Changes in the balances of claim liabilities are as follows:

	<u>2005</u>	<u>2004</u>
Unpaid claims, beginning of year	\$ 8,550,000	\$ 11,300,000
Incurred claims, net of changes in estimates	868,690	(2,446,550)
Claim payments	(368,690)	(303,450)
Unpaid claims, end of year	<u>\$ 9,050,000</u>	<u>\$ 8,550,000</u>

The extent of purchased insurance coverage (i.e., property, workers' compensation, and general liability stop loss coverage) has not changed significantly from previous years. Settlements, if any, on losses covered by insurance have not exceeded insurance coverage for each of the past three fiscal years.

2. Equity in Pooled Cash and Investments

The City maintains an investment pool for most City funds. Each fund's portion of the investment pool is displayed on the balance sheet as "Equity in pooled cash and investments". The City Treasurer is responsible for most investments, including those held in separate trust accounts, with the exception of the resources of the Retirement Systems' trust funds which are managed by their own Board of Trustees.

The laws of the State of Michigan, the City of Grand Rapids ordinance on investments, and the City's Investment Policy authorize the Treasurer to invest surplus monies belonging to and under the control of the City in investment instruments as follows:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two of the following four nationally recognized statistical rating organizations (NRSRO): Moodys, Standard and Poors, Fitch ICBA, or Duff and Phelps. Maturities can not be more than 270 days after the date of the purchase. Commercial paper of any one firm shall not exceed 10% of the City's investments, excluding bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States. The City shall be limited to a maximum of 10% of a firm's total outstanding commercial paper.
- United States or federal agency or instrumentality obligation repurchase agreements.
- Banker's Acceptances of United States Banks.
- Obligations of this state or any of its political subdivisions that, at the time of purchase, are rated as investment grade by not less than 1 standard rating service.
- Mutual funds, registered under the investment company act of 1940, composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Investment pools organized under the local government investment pools acts and/or, investment pools organized under the surplus funds investment pool act, provided the fund has an average maturity less than 90 days.

GENERAL CITY—DEPOSITS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the City's deposits may not be returned to the City. Most deposits are uninsured and uncollateralized.. At year-end, the carrying value of the City's deposits (included in "Equity in Pooled Cash and Investments") was \$157,968,743 and the associated bank balances totaled \$160,322,039. Of the bank balances, \$1,100,000 was covered by federal deposit insurance. Accordingly, the remaining deposits of \$159,222,039 were uninsured.

2. Equity in Pooled Cash and Investments, continued:

The State of Michigan requires deposits to be maintained in depositories that maintain a principal office or branch office within the State of Michigan. City Commission Policy #400-01, initially adopted on September 26, 1989, establishes various criteria that qualify certain financial institutions, limits the total amount of certificates of deposit with any one institution, and provides for other practices used by the City of Grand Rapids to invest funds and control portfolio risk. Not less than annually, the City Treasurer's Office reviews the financial data of the banks with which deposits are placed to make sure the banks meet the City's profitability standard. Banks must show a net profit on three of their last four annual financial statements and an aggregate profit over the four-year period. The review includes, but is not limited to, evaluating the safety of the City's capital and defining parameters on the amount of City investments placed with any one institution. Pursuant to the Investment Policy, there is a maximum of 25% that can be invested in certificates of deposit with any one financial institution at the time of the investment.

If a bank is a new institution, the profitability standards are to be adjusted to available information requiring that financial reporting reflect an aggregate profit for the available reporting periods and an overall profit in 75% of the available periods for which information is available. In the event that the City Treasurer deems that sufficient capital exists, the profitability standard may be waived and amounts may be invested up to 1/10th of the capital (excluding borrowing, loan losses, and goodwill) of the financial institution.

At June 30, 2005, the City had the following deposits:

Financial Institution	Certificates of Deposit	Money Market Accounts	Other Deposit Accounts	Totals	
				Dollars	Percentages
Flagstar Bank	\$ 45,033,756	\$ -	\$ -	\$ 45,033,756	28.51 %
Macatawa Bank	25,000,000	-	-	25,000,000	15.82
Huntington Bank	-	24,513,871	-	24,513,871	15.52
Mercantile Bank	22,846,208	665,582	-	23,511,790	14.88
Republic Bank	22,300,000	-	-	22,300,000	14.12
The Bank of Holland	5,397,610	-	-	5,397,610	3.42
Fifth Third Bank	-	3,775,938	-	3,775,938	2.39
Select Bank	1,754,670	-	-	1,754,670	1.11
Founders Trust	-	104,257	-	104,257	0.07
Bank One	-	31,731	-	31,731	0.02
Other deposits, various banks	-	-	-	-	-
Total	\$ 122,332,244	\$ 29,091,379	\$ 6,545,120	\$ 157,968,743	100.00 %
Percentage	77.44 %	18.42 %	4.14 %	100.00 %	

2. Equity in Pooled Cash and Investments, continued:

GENERAL CITY—INVESTMENTS

Credit Risk

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The investment policy limits this risk by limiting investments in commercial paper to those rated in one of the two highest classifications established by at least two NRSROs at the time of purchase and limiting the purchase of municipal obligations to those rated investment grade by at least one NRSRO. The City has one Government Agency security. That investment in a Federal Home Loan Bank 3.25% agency due July 21, 2006, is rated AAA by Standard & Poor's, and Aaa by Moody's Investor Services. US Treasury securities are not rated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the City may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by pre-qualifying broker/dealers, intermediaries and advisors with which the City executes investment transactions by reviewing references and the net worth of their investment company. At June 30, 2005 all investments were held by the City's agent in the City's name.

Interest Rate Risk

Interest rate risk is the exposure of investments to change in market value as interest rates change. The Treasurer's policy limits maturities to no longer than three years to minimize interest rate risk. As a general rule, the Office avoids the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. The City avoids the need to sell securities in the open market by investing operating funds primarily in shorter-term laddered certificates of deposit securities, liquid asset funds, money market funds, or similar accounts and/or investment pools in accordance with the City's cash requirements. At June 30, 2005 the City's investments had the following maturities:

	<u>Fair Value</u>	<u>Maturity (Years)</u>
U. S. Treasury Bill	\$ 5,475,494	0.08 years
U. S. Treasury Note	638,330	0.25 years
Federal Agency	19,887,600	1.06 years
Money Market Mutual Funds	5,172,000	n/a

Concentration of Credit Risk

The City's Investment Policy places limits on the amount that may be invested in any one issuer. There is a maximum of 25% per financial institution at the time of investment. In addition, the purchase of commercial paper of any one company shall be limited to 10% of that company's total outstanding commercial paper and shall not exceed 10% of the City's investments excluding U.S. Treasury Securities. More than five (5) percent of the City's investment portfolio is invested in the following issuers' securities as reflected below:

Federal Home Loan Bank Board	\$ 19,887,600
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2. Equity in Pooled Cash and Investments, continued:

Foreign Currency Risk

The City had no exposure to foreign currency risk. State law prohibits investments in instruments denominated in foreign currencies.

RETIREMENT SYSTEMS—INVESTMENTS

The investments of the City's Retirement Systems are designed to comply with requirements of the State of Michigan, Public Act 314 of 1965 (MCL 38.1132 *et seq*), which has numerous investment limitations depending on the type of investment. These restrictions are summarized in Note 7. In addition, contracts between the systems and their investment managers impose additional restrictions on the securities each investment manager may purchase on behalf of the system. Currently both retirement systems are utilizing the same managers with the same investment mandates, although the individual securities in each portfolio may differ. The assets accumulated by a pension system are used to fund liabilities that mature decades in the future. Because of this long-term orientation, they are allowed to invest in assets that have substantially greater risk of decline in value over the short-term than would be prudent for the investments described above that are used to fund general city functions.

RETIREMENT SYSTEMS—POLICE & FIRE RETIREMENT SYSTEM

The City's Retirement Systems have different fiscal year-ends. GASB Statement No. 40 which requires enhanced disclosures of deposit and investment risk became effective after the fiscal year end of the Police and Fire Retirement System, accordingly the risk information presented for the City and the General Retirement System is unavailable for the Police and Fire System (P&F). The below information on custodial risk provides a limited view of the investment risk of the P&F investment portfolio. Investments are categorized below to give an indication of the level of risk assumed by the system at December 31, 2004:

Category 1 includes investments that are insured, registered, or for which the securities are held by the system or its agent in the system's name

Category 2 includes uninsured and unregistered investments for which the securities held by the counter-party's trust department (if a bank) or agent in the system's name

Category 3 includes uninsured and unregistered investments for which securities are held by the counter-party in the City's name or by the counter-party's trust department (if a bank) or agent but not in the City's name.

The remaining investments are not categorized as they represent mutual fund and partnership interest not evidenced by physical securities.

2. Equity in Pooled Cash and Investments, continued:

Investment Type	Category			Uncategorized	Carrying Amount	Fair Value
	1	2	3			
Common Stocks	\$ 49,230,809	\$ -	\$ -	\$ 158,171,133	\$ 207,401,942	\$ 207,401,942
Government Obligations	24,050,395	-	-	38,276	24,088,671	24,088,671
Government Agency Obligations	1,058,717	-	-	726,922	1,785,639	1,785,639
Municipal Obligations	653,308	-	-	-	653,308	653,308
Commercial Mortgage-Backed Securities	1,541,680	-	-	-	1,541,680	1,541,680
Commercial Paper	111,035	-	-	-	111,035	111,035
Asset Backed Securities	24,585,287	-	-	5,047,094	29,632,381	29,632,381
Non-government Backed CMOs	4,160,240	-	-	-	4,160,240	4,160,240
Corporate Obligations	23,667,037	-	-	6,185,124	29,852,161	29,852,161
Partnerships	-	-	-	16,424,362	16,424,362	16,424,362
Short-term Obligations	299,580	-	248,509	6,197,890	6,745,979	6,745,979
	<u>\$ 129,358,088</u>	<u>\$ -</u>	<u>\$ 248,509</u>	<u>\$ 192,790,801</u>	<u>\$ 322,397,398</u>	<u>\$ 322,397,398</u>

RETIREMENT SYSTEMS—GENERAL RETIREMENT SYSTEM

In accordance with the new requirements of GASB Statement No. 40, the City of Grand Rapids General Retirement System (GRS) has expanded its disclosure of investment risk beyond custodial risk.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This portfolio structures its fixed income allocation to be approximately neutral in duration and interest rate risk to that of the benchmark (Lehman Aggregate Index). This meant that at June 30, 2005 the fixed income portfolio had an effective duration of between 4 and 5 years. As of June 30, 2005, the GRS had the following investments and maturities:

2. Equity in Pooled Cash and Investments, continued:

Investment Type	Fair value	Investment Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Asset Backed Sec.	\$ 9,808,116	\$ -	\$ 1,414,237	\$ 854,060	\$ 7,539,819
Commercial Mtg. Bkd.	1,602,074	-	-	-	1,602,074
Corporate Bonds	32,018,448	638,447	9,589,862	9,534,932	12,255,207
Fixed Inc. Derivatives – Futures	7,127,719	7,127,719	-	-	-
Fixed Inc. Derivatives – Options	(185,417)	(185,417)	-	-	-
Government Agencies	4,393,464	608,855	3,306,804	249,236	228,569
Government Bonds	20,180,330	247,744	7,357,948	1,455,955	11,118,683
Government Mortgage Backed	24,894,138	-	392,691	3,533,014	20,968,433
Index Linked Gov. Bonds	3,228,748	-	2,538,328	239,740	450,680
Municipal/Provincial Bonds	2,254,994	-	410,440	784,445	1,060,109
Non-Government Bkd. – CMOs	8,488,290	-	-	-	8,488,290
	<u>\$ 113,810,904</u>	<u>\$ 8,437,348</u>	<u>\$ 25,010,310</u>	<u>\$ 16,651,382</u>	<u>\$ 63,711,864</u>

The country of risk for all of the Non-Government Backed C.M.O.s is the United States, with the exception of one security; where the country of risk is Australia. The earliest maturity date is June 25, 2018 and the latest maturity date is April 25, 2045.

Credit Risk

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The fixed income portfolio invests in both investment grade bonds as well as high yield bonds. However the Investment Policy states the composite credit rating for the entire portfolio is not to be below an "A" rating. As of June 30, 2005, the credit rating of the securities in the portfolio with the lowest rating within each category were as follows:

Investment Type	Lowest Moody Rating	Lowest S&P Rating
Asset Backed Securities	Ba1	BB+
Commercial Mortgage Backed	Aaa	AAA
Corporate Bonds	Caa1	B-
Government Agencies	Aaa	AAA
Government Bonds	Baa1	BBB
Government Mortgage Backed	AGY	AGY
Index Linked Gov. Bonds	Aaa	AAA
Municipal/Provincial Bonds	Baa3	A
Non-Government Bkd. – CMOs	Baa1	BBB+

2. Equity in Pooled Cash and Investments, continued:

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the GRS' investment in a single issuer. State statute and the system's investment policy provides that no single issuer will represent more than 5% of the total fund. As of June 30, 2005, no single issuer within this portfolio represented more than 5% of the total fund.

Custodial Credit Risk

Custodial Credit Risk for investments is the risk that in the event of the failure of the counter-party to a transaction, the system will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Custodial Credit Risk is minimized by having most investments either in the form of open end mutual funds, or held by the system's agent, Northern Trust Co., in the name of the system. As of June 30, 2005, \$300,358 of the GRS' cash balance of \$5,114,315 was exposed to custodial credit risk because it was not held in the name of the system.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. In general, the foreign currency exposure resulting from international investments is not hedged. This exposes the portfolio to foreign currency risk, which is not expected to harm or help the performance of the fund in a significant way over the long term. As of June 30, 2005, the GRS had the following foreign investments:

<u>Investment Type</u>	<u>Currency Denomination</u>	<u>USD Amount</u>
Common Stock	Canada	\$ 471,875
International Equity Mutual Fund	Multi-National Agencies Region	54,562,843
Government Bonds	Mexico	931,375
Corporate Bonds	Australia	385,498
	Canada	140,983
	Cote d'Ivoire	82,368
	Hong Kong	241,873
	Luxembourg	408,716
	Mexico	292,750
	Netherlands	270,796
	Republic of Korea	359,947
	Singapore	310,688
	United Kingdom	502,960
Non-Government Backed – CMOs	Australia	225,346
		<u>\$ 59,188,018</u>

2. Equity in Pooled Cash and Investments, continued:

Securities Lending Risk

As of June 30, 2005, the GRS had the following balances related to securities lending transactions:

Investment Type	Fair Value of Loaned Securities Collateralized by		Fair Value of Loaned Securities Collateralized by Non-	
	Cash Collateral	Cash Collateral	Cash Collateral	Non-Cash Collateral
U.S. Agencies	\$ 101,553	\$ 104,299	\$ 612,976	\$ 628,480
U.S. Corporate Fixed Income	11,903,108	12,186,330	1,042,904	1,065,589
U.S. Equities	5,969,029	6,126,850	-	-
U.S. Govt. Fixed Income	39,234,488	40,061,168	3,786,792	3,864,257
	<u>\$ 57,208,178</u>	<u>\$ 58,478,647</u>	<u>\$ 5,442,672</u>	<u>\$ 5,558,326</u>

Public Act 314 permits and Trustees have implemented a Securities Lending program whereby the system, through The Northern Trust Company (NT), lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The GRS has authorized NT to utilize the Core U.S.A. Collateral Section in which all collateral is in U.S. dollars only and available to participating lenders who are domiciled or reside in the U.S.A. The GRS receives cash, letters of credit, or government securities as collateral for loans of their securities to approved borrowers. Initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and the collateral are denominated in different currencies.

At fiscal year-end, the GRS has no credit risk exposure to borrowers because the amounts the GRS owes the borrowers exceed the amounts the borrowers owe the GRS. NT shall indemnify the GRS if it is unable to recover borrowed securities and distributions made during the term of the loan or loans with respect to those securities as a result of either 1) NT fails to make a reasonable determination of the creditworthiness of a borrower, 2) NT fails to demand adequate and appropriate collateral on a prompt and timely basis, perfect a security interest, obtain equivalent rights in the collateral or maintain control of the collateral or 3) NT fails to otherwise perform its duties and responsibilities under its agreement with the GRS or applicable law. All securities loans can be terminated on demand by either the GRS or NT and is subject to the performance by both parties of any of their respective obligations that remain outstanding at the time of termination. Upon termination of this program by either party, NT shall terminate all outstanding loans of the GRS' securities and shall make no further loans. The GRS does not have the ability to pledge or sell collateral securities without a borrower default. There are no restrictions on the amount of the loans that can be made. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

3. Stewardship, Compliance and Accountability

The Local Streets Special Revenue Fund had a negative fund balance of \$144,501 at June 30, 2005. Gas and Weight tax revenues in FY06 will cover the deficit.

The 61st District Court Component Unit had a negative fund balance of \$156,578 at June 30, 2005. Subsidy from the City General Fund will cover the deficit.

The legal level of budgetary control is the department level. With limited exceptions, including the General Fund, funds contain the operations of a single department. For the year ended June 30, 2005, expenditures exceeded appropriations in the following governmental funds:

<u>Fund</u>	<u>Excess</u>
Public Museum	\$ 3,318,559
Sidewalk Repair	498,892
Local Streets	407,282
Drug Law Enforcement	225,376
Economic Development	65,883
General Special Revenue	22,727

4. Restricted Assets

Certain bond issues require the restriction of assets. The amount of restricted assets is determined by authorized construction projects, requirements specified in bond ordinances and current bond maturities. Restricted assets as shown in the Statement of Net Assets as of June 30, 2005 consist of the following:

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	
	<u>Supply System</u>	<u>Disposal System</u>	<u>Total</u>
Equity in pooled cash and investments	\$ -	\$ 20,850,433	\$ 20,850,433
Funds held by trustee	5,349,932	3,970,838	9,320,770
Loans receivable	345,577	182,527	528,104
Deferred bond costs	980,449	1,105,498	2,085,947
Total restricted assets	<u>\$ 6,675,958</u>	<u>\$ 26,109,296</u>	<u>\$ 32,785,254</u>

5. Capital Assets

Capital assets at June 30, 2005 are summarized as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 16,363,741	\$ 496,842	\$ 742,468	\$ 16,118,115
Construction in progress	12,659,577	-	5,023,631	7,635,946
Total capital assets, not being depreciated	29,023,318	496,842	5,766,099	23,754,061
Capital assets, being depreciated:				
Land improvements	31,679,982	713,028	-	32,393,010
Buildings and structures	166,863,062	2,711,925	-	169,574,987
Leasehold improvements	254,766	-	-	254,766
Machinery and equipment	23,122,870	1,173,693	20,844	24,275,719
Motor vehicles	41,731,895	2,816,867	2,016,871	42,531,891
Furniture	5,568,122	-	-	5,568,122
Infrastructure	17,644,390	2,569,696	-	20,214,086
Total capital assets, being depreciated	286,865,087	9,985,209	2,037,715	294,812,581
Less accumulated depreciation for:				
Land improvements	12,877,624	1,437,522	-	14,315,146
Buildings and structures	38,844,070	6,012,503	-	44,856,573
Leasehold improvements	215,223	25,476	-	240,699
Machinery and equipment	10,756,471	1,939,480	7,990	12,687,961
Motor vehicles	24,899,849	4,190,786	1,978,379	27,112,256
Furniture	3,018,263	386,041	-	3,404,304
Infrastructure	9,969,275	499,785	-	10,469,060
Total accumulated depreciation	100,580,775	14,491,593	1,986,369	113,085,999
Total capital assets, being depreciated, net	186,284,312	(4,506,384)	51,346	181,726,582
Governmental activities capital assets, net	\$ 215,307,630	\$ (4,009,542)	\$ 5,817,445	\$ 205,480,643

5. Capital Assets, continued:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 10,253,651	\$ 212	\$ -	\$ 10,253,863
Construction in progress	15,788,505	25,042,040	-	40,830,545
Total capital assets, not being depreciated	26,042,156	25,042,252	-	51,084,408
Capital assets, being depreciated:				
Land improvements	17,551,897	5,603	-	17,557,500
Buildings and structures	149,881,521	211,493	2,812,360	147,280,654
Storage tanks	13,544,960	1,160,351	-	14,705,311
Water meters	7,375,481	-	-	7,375,481
Machinery and equipment	129,660,305	12,218,952	-	141,879,257
Motor vehicles	985,990	16,987	-	1,002,977
Furniture	1,706,389	137,251	-	1,843,640
Sewer service mains	250,104,198	7,499,927	-	257,604,125
Water mains	198,380,685	8,744,913	-	207,125,598
Total capital assets, being depreciated	769,191,426	29,995,477	2,812,360	796,374,543
Less accumulated depreciation for:				
Land improvements	10,612,688	774,023	-	11,386,711
Buildings and structures	50,493,473	3,325,425	2,812,360	51,006,538
Storage tanks	6,714,577	337,670	-	7,052,247
Water meters	6,814,113	149,066	-	6,963,179
Machinery and equipment	83,009,424	3,681,432	-	86,690,856
Motor vehicles	564,471	100,593	-	665,064
Furniture	1,323,567	95,239	-	1,418,806
Sewer service mains	68,669,283	4,839,015	-	73,508,298
Water mains	40,326,873	2,687,684	-	43,014,557
Total accumulated depreciation	268,528,469	15,990,147	2,812,360	281,706,256
Total capital assets, being depreciated, net	500,662,957	14,005,330	-	514,668,287
Business-type activities capital assets, net	\$ 526,705,113	\$ 39,047,582	\$ -	\$ 565,752,695

5. Capital Assets, continued:

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 1,781,937
Public safety	2,448,866
Public works	1,606,675
Culture and recreation	4,336,354
Capital assets held by the government's internal service funds	<u>4,317,761</u>
Total depreciation expense - governmental activities	<u>\$ 14,491,593</u>

Business-type activities

Water	\$ 6,412,000
Sewer	7,980,013
Auto parking	1,372,080
Other	<u>218,064</u>
Total depreciation expense - business-type activities	<u>\$ 15,982,157</u>

5. Capital Assets, continued:

DISCRETELY PRESENTED COMPONENT UNITS

Activity for the Downtown Development Authority for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 11,215,959	\$ -	\$ 742,468	\$ 10,473,491
Construction in Progress	971,318	-	971,318	-
	<u>12,187,277</u>	<u>-</u>	<u>1,713,786</u>	<u>10,473,491</u>
Capital assets, being depreciated:				
Land improvements	5,081,008	1,218,326	-	6,299,334
Buildings and structures	58,845,693	-	-	58,845,693
Machinery and equipment	6,488,753	-	-	6,488,753
Motor vehicles	22,563	-	-	22,563
Furniture	2,827,540	-	-	2,827,540
Infrastructure	-	1,072,524	-	1,072,524
	<u>73,265,557</u>	<u>2,290,850</u>	<u>-</u>	<u>75,556,407</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Land improvements	2,048,223	309,688	-	2,357,911
Buildings and structures	15,205,319	1,962,226	-	17,167,545
Machinery and equipment	1,983,559	286,376	-	2,269,935
Motor vehicles	22,563	-	-	22,563
Furniture	730,448	94,251	-	824,699
Infrastructure	-	21,450	-	21,450
	<u>19,990,112</u>	<u>2,673,991</u>	<u>-</u>	<u>22,664,103</u>
Total accumulated depreciation				
	<u>53,275,445</u>	<u>(383,141)</u>	<u>-</u>	<u>52,892,304</u>
Total capital assets, being depreciated, net				
	<u>\$ 65,462,722</u>	<u>\$ (383,141)</u>	<u>\$ 1,713,786</u>	<u>\$ 63,365,795</u>
Downtown Development Authority capital assets, net				

5. Capital Assets, continued:

Activity for the Tax Increment Financing Authority for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 1,280,000	\$ -	\$ -	\$ 1,280,000
Capital assets, being depreciated:				
Land improvements	3,337,341	-	-	3,337,341
Buildings and structures	173,655	-	-	173,655
Total capital assets, being depreciated	3,510,996	-	-	3,510,996
Less accumulated depreciation for:				
Land improvements	859,401	166,867	-	1,026,268
Buildings and structures	44,137	8,683	-	52,820
Total accumulated depreciation	903,538	175,550	-	1,079,088
Total capital assets, being depreciated, net	2,607,458	(175,550)	-	2,431,908
Tax Increment Financing Authority capital assets, net	\$ 3,887,458	\$ (175,550)	\$ -	\$ 3,711,908

The SmartZone Development Authority, the Brownfield Redevelopment Authority and the 61st District Court do not have capital assets.

The City has active construction projects as of June 30, 2005. The major projects include various Water Supply System, Sewage Disposal System and Street Construction Projects, as well as the Community Archive and Research Center project. At year-end, the City's major commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Projects:		
Various water mains and system construction projects	\$ 5,606,539	\$ 9,512,059
Various service mains and system construction projects	29,888,754	27,054,572
Various street construction projects	6,523,420	3,793,964
Community Archive and Research Center - Phase II	6,503,538	1,177,539
Total	\$ 48,522,251	\$ 41,538,134